★ WISEST MARKET POLICY NOW ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JANUARY 18, 1947
50 CENTS

★ 1947 PREVIEW

10 POTENTIAL MARKET LEADERS

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WHICH INDUSTRIES OFFER BEST PROSPECTS

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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Looking Into 1947

WITH THE NEW YEAR well under way, we become increasingly aware of a new outlook. The year 1947 is a much different period than its predecessors in many respects. Note since the halcyon days of the late nineteen twenties have prospects been so favorable for the long-range growth and expansion of this country and its economy. Far from having reached the "frontiers" about which we heard so much just a few years ago, there is growing realization that the ultimate limits of this nation's potentials are now where in sight.

But unlike the mercurial optimism of the nineteen twenties, when the "sky was the limit," our nation's present-day optimism is of a more moderate sort. As a people, we have been sobered by the worst war in our history—and the loss and sacrifice that this entailed. We have passed through more than a decade of political vagaries in which free enterprise was under fire and strained relations existed between business men and their national Government. And people have not forgotten the crash of 1929 and the black years that followed. All this has bred a healthy caution, and we must recognize that far-reaching readjustment must precede real expansion.

The remarkable thing about all the tribulations through which we have passed is that they have served to temper and strengthen our economy. Today, we are stronger nationally and industrially than ever before in our history. True, we still have substantial problems with which to cope such as an enormous national debt, but our resources have increased in relation to these problems.

One could chart many facts and figures, and adduce tangible evidence of our present economic position, but there are also intangible influences which must be taken into account. By far the most important of these intangibles is the improving political climate. The shift away from leftist doctrines and anti-free enterprise philosophies has been running strong for several years, but found its fullest expression in the elections last Fall. It is not merely that the Republicans have gained control of Congress, it is that a more moderate, more tolerant and therefore more liberal dispensation is in prospect, provided, of course, that the Republicans realize and measure up to the hope and trust confided in them.

Still another intangible factor of profound importance is the better management-labor outlook. Management has learned a great deal in the last decade or so, much of it the hard way. Labor, now, is in for the same educational process, and signs are multiplying that the high-water mark of labor excesses has been reached. Not in the immediate future, but gradually, a better relationship is in the making between business management and organized labor.

A new year means a new outlook and a new order of things. And, this, in turn, means a new challenge and new responsibilities for us all. The potentials for a better, fuller future are all here for this country, if we will but handle them aright.

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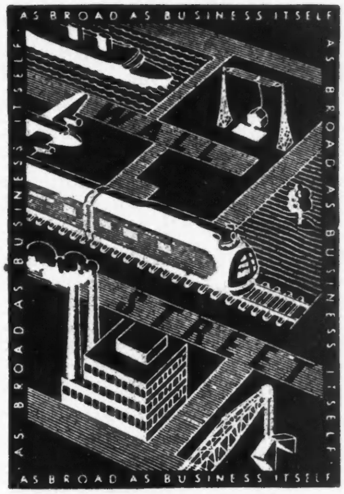
Analyzing 1946 Corporate Statements—Clues Revealed For 1947

THE MAGAZINE OF WALL STREET
C. G. Wyckoff, *Publisher*



The Trend of Events

BATTLE OF THE BUDGET—The fiscal battle of 1947 is being joined. The opening salvo was President Truman's new budget of $37,258,000,000 for the new fiscal year, against estimated receipts of $37,-730,000,000. If this could be achieved, it would be the first instance of budgetary balance in years, with a a resultant surplus of $202,000,000.

But this is by no means the last word on the subject. The Truman budget immediately drew the fire of Republican chiefs, who contend that the President's appropriations are excessive and will have to be pared down substantially. Other GOP leaders charged that the "balance" achieved by the President's estimates is only illusory, that in reality it is based on misleading forecasts, and that it will wind up with a deficit, rather than the estimated surplus. Leading Republican sentiment, as this is being written, favors a cut in appropriations of about $2½ billions, which, it is contended, could come from non-defense appropriations. Elimination and reduction of certain Federal agencies is one of the specific steps recommended.

Behind the Republican assault on the President's budget, there is much more than the usual run of partisan politics. While it is true that the GOP is traditionally economy-minded, the central point at issue just now is that the Republicans are committed to tax reductions, and are hard pressed to carry out their pledge. Obviously, if they can trim Federal expenses to a significant degree, their chances for effecting tax cuts will be much improved.

So, the focus of the clash between the two factions will be mainly about the tax issue. The GOP says that taxes can and will be cut. The President claims this is impossible. It will be interesting to see how the battle fares.

On this whole matter of how tax rate changes affect revenues, some astute observers have pointed out a little-observed fact, namely, that the tax relief voted late in 1945, to apply to 1946 earnings, actually yielded a $2,500,000,000 boost in Federal receipts, instead of the $6,000,000,000 drop which the Government fiscal authorities had forecast at that time. The rise in tax income, it will be noted, occurred despite the host of tribulations that industry suffered last year through strikes, materials shortages and other troubles, an interesting commentary on the theory that higher tax rates necessarily mean higher revenues.

Turning to some of the other aspects of the Truman budget, it is interesting to note how the Government intends to spend its budget dollar in the fiscal year ahead. Defense appropriations loom largest, with direct Army-Navy appropriations getting 30 cents out of the budget dollar, and if we add the 3 cents devoted to atomic and similar research, and the 19.5 cents for veterans' services and benefits, the total for direct and indirect defense totals 52.5 cents. The largest single non-military outlay is for interest on the national debt, which accounts for 13 cents out of the expense dollar, while 9 cents are devoted to "international affairs and finance," meaning, chiefly, the financial aid we shall be extending to various foreign nations and our contributions

Business, Financial *and* Investment Counselors : 1907—*"Over Forty Years of Service"*—1947

to international financial agencies, such as the Monetary Fund.

QUARANTINING LABOR TROUBLES — One of the more encouraging signs on our national horizon is the almost universal determination to avoid a repetition of the strike epidemics which almost paralyzed industry in 1946. It is a feeling shared not only by industrial leaders, but by a good part of the rank and file of labor, and by figures in Government who have been traditionally friendly to the cause of labor generally.

Among the latter is Republican Senator Ball of Minnesota, who has been among the more liberal members of his party. Thus far, the Senator has introduced several bills designed to curb labor excesses, while at the same time preserving the basic liberties of labor as a whole. These are the Ball-Taft-Smith bill, a slightly revised version of last year's Case bill, the anti-closed shop bill, and amendments to the Wagner Act.

But the most significant of all, in many respects, is the latest introduced by this Senator, which, in effect, would quarantine labor troubles to a considerable degree. One of the worst features of the endemic strikes of 1946 was the way in which they spread throughout whole industries. Thus, a walkout in an obscure plant over some minor issue could overnight beget sympathy strikes in the whole industry. Net result was that the unions involved endeavored to bargain for the entire industry in question rather than for the company originally concerned. The Ball plan aims to stop all that. Popularly designated the "local bargaining" bill, it would prohibit unions from representing the employees of more than one company in a strike unless the plants involved were within a 100-mile radius. (Sole exception, however, would be if the one company affected had plants in various parts of the country.)

At a time when nation-wide shutdowns have become a major threat, such legislation would have the effect of quarantining labor trouble within reasonable limits. While it would not entirely prevent industry-wide walkouts, it could effectively check their progress and delay their timing, which means a good deal.

BRITISH NATIONALIZATION SPREADING — The nationalization program of the British Socialist government is materializing step by step. Britain's central bank, its civil aviation, coal mines and communications have already been made government property, and the electric power industry is next on the list. The Socialists are not doing things by halves; they are taking over whole industries step by step. In nationalizing the utility business, they are taking over the entire power generating and supply system of the island kingdom. Plans for regimenting British agriculture are already far advanced, and inland transportation will probably be next on the list.

Following a pattern that has become all too familiar by now, each industry, upon government acquisition, is placed under a central government authority, whose aim is to "standardize the industry and to furnish increased supplies at cheaper rates."

It seems well nigh incredible that all this would ever happen in Great Britain, the traditional stronghold of free enterprise and private ownership. But whether we like it or not, there it is, and the best that Americans can do is to read whatever lessons might apply to our own land. Our best antidote against a duplication of such trends here is to make free enterprise work and to have it succeed as never before. This would be the best refutation possible to the advocates of statism and regimentation.

TARIFF OPPOSITION—The Administration's much-discussed reciprocal trade program isn't going to have completely easy sailing. Opposition is mounting rapidly in many quarters, and, oddly enough, in circles that traditionally have been among the advocates of tariff reduction and greater reciprocity in our world trade.

Probably most surprising has been the objection of Southern and Western agriculture, the historical champions of low tariffs and increased imports. But their support of low tariffs has been chiefly where manufactured goods are concerned. Now that farm products may be affected by tariff concessions, the agrarian interests' stand has been greatly altered. Representatives of Western and Southern states recently contended that any further paring of tariffs on their products would bring widespread "peonage" to the United States. The obvious inference, of course, is that this would lower the barriers to a flood of foreign crops which by virtue of lower production costs could undersell domestic producers in our home market.

Allied with the farm interests in this stand are the livestock and mining operators, who plead that their markets, too, would be affected. Under the reciprocal trade program in force for the past twelve years, many tariffs have been reduced about 30% to 40% on numerous products. Now the Administration hopes that tariffs can be pared another 50% from present levels.

This whole subject of reciprocal tariffs is a complex affair, and is one which cannot be dismissed by easy generalizations. Perhaps there is a measure of justice in what these tariff opponents contend. But anti-tariff arguments are old, familiar stories in this country, and are usually implemented by predictions of dire ruin for the industry involved if tariff barriers are lowered. Yet, the one point so consistently overlooked is that a larger inflow of imports, at lower prices, may not be unpalatable to the American consumer, especially at a time when many goods are still scarce and prices are high. If the reciprocal tariff program is to succeed, the interests of the nation as a whole, rather than of special groups, must be the prime consideration.

As I See It!

By ROBERT GUISE

THE SPECULATOR'S ROLE IN OUR ECONOMY

SOMEHOW the word "speculator" has taken on a weird variety of meanings in popular usage, with all kinds of connotations of gambling and financial legerdemain. But despite popular impressions to the contrary, that much-maligned individual, the speculator, plays a vital role in our free enterprise system. We refer here, of course, to speculation in its literal meaning and in its best ethical sense. Honest, competent speculators are not to be confused with swindlers and charlatans, who crop up from time to time in the business world as well as in any other realm, but who are the exception rather than the rule.

Every new idea, project and invention needs the support and sponsorship of entrepreneurs and promoters (which are really synonoymous for "speculator") and it is these individuals who put up the necessary cash in hope of eventual reward. By his willingness to furnish venture capital, which is the lifeblood of free enterprise, the speculator is the driving force in our business life.

Honest speculation also aids our financial machinery in many ways that the critics of free enterprise fail to admit. Without a good amount of speculative capital in the financial markets at all times, these exchanges would be dangerously thin, and liquidity would be much impaired. This is even more true of our commodity exchanges, where speculators act as a balance wheel between buyers and sellers of our basic crops and raw materials. Lacking such speculative support, prices for these commodities would gyrate wildly, hurting both producer and consumer.

History in all lands and ages shows that speculation and economic expansion go hand in hand. It was true in the Graeco-Roman world of commerce, it was again illustrated in the rise of Venice, and later, of Holland, Britain, France, Germany and, finally, of our own nation. When speculation is discouraged, either by legislation or by restricting incentives, economic stagnation and decline always follow.

Signs are multiplying that speculation, in the best sense of the word, is coming back into its rightful place in this country. In a land where there is still no ceiling on opportunity, incentives are great enough to warrant the risk of capital in the hope of eventual profit. In every business boom in our history, the speculator has been prominent.

Unfortunately, this very necessary supplier of venture capital has not always had easy going in the past decade or more. During that period, he was the target of a hostile Administration and the exponents of collectivism whose theory was that the "State should do it" rather than the individual and his resources. But that threat seems pretty largely removed, at least for the present, and an atmosphere more favorable to venture capital is returning once again.

Apologies to Christian Science Monitor

"Needed for an Expanding Economy"

Incentive is the key to putting venture capital to work and keeping it at maximum employment. Such incentive must include a reasonable chance to make a profit, and the assurance that the supplier of the capital will be able to keep all or most of such profits. Elimination of our capital gains levy and others forms of tax relief will be necessary in order to heighten incentives once again.

Wisest Market Policy Now

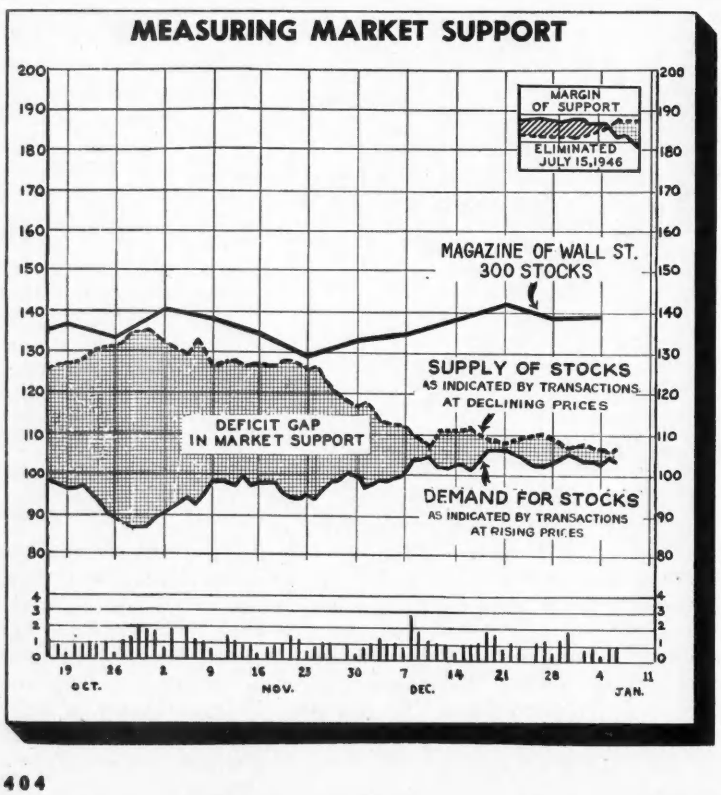
The market is again on the defensive, with new lows threatened in a great many stocks, especially among consumer-goods issues and more speculative equities generally. Pending the outcome of a conclusive test of the October lows in the averages, which may or may not come on the present sell-off, we suggest that all buying be postponed.

By A. T. MILLER

FROM A TECHNICAL STANDPOINT, THE ACTION OF THE MARKET IS POOR. In terms of the Dow-Jones industrial average, the traditional year-end rally culminated on January 6 and 9 with a double top (closing prices). Measured from the December low, it fell far short of the long-term average performance for the year-end season. Measured against the best levels of October and November, it added relatively little to the intermediate recovery from the October bear-market low. Finally, the whole recovery made up only about a third of the ground lost in the August-October decline, which is, roughly, minimum expectancy on a secondary reversal in a bear market.

Rail stocks made their recovery high as long ago as December 9, about a month ahead of the industrials. For the utility average, the comparable date was December 20. In other words, neither of these important groups had any year-end rise.

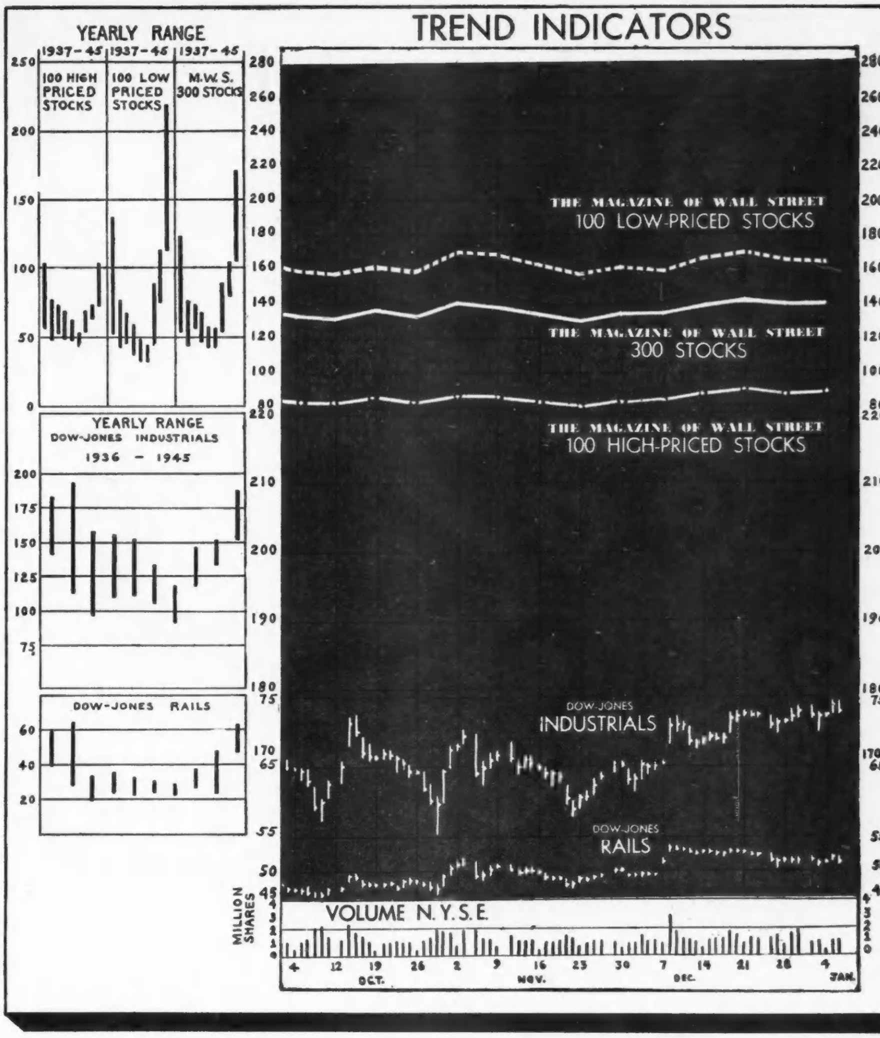
In some respects the situation reminds one of last summer, when it was generally assumed that the bull market was still "in being," although only time can tell whether the comparison has any prophetic value. At that time the market proved unable to go ahead significantly, although the seasonal "habit" of advances in July-August has been second only to the year-end rise in consistency over a long period of years. At that time there had also been divergent action by the industrial and rail averages, such as has frequently preceded important reversals of general trend for reasons which nobody has ever been able to rationalize.



In any event, it took only a few days of weakness to turn speculative thoughts from the question how far recovery might go to the less pleasant question of whether the bear-market lows face a nearby test, and, if so, whether these lows will be broken. We do not know the answers to those questions. Nobody does. However, *the market is definitely on the defensive.* The possibilities should not unduly concern those who have taken our previous advices to heart. In our January 4 issue we warned that top-heavy speculative holdings should be lightened immediately, as it was too risky to take a chance in waiting for more rally. At the same time we said that further selling tests were bound to be met in any event; and suggested that a display of resistance to pressure would be more reliable, in its major-trend implications, if it came around March-April than over the near future. There is no change in the latter view. It rests on the fact that nearly all bear markets have lasted longer than this one has to date; *and the further fact that in the great majority of bear-market years stock*

prices at some time within the spring period have gone sharply under January levels. On any time pattern that we can conceive of for the transition from bear market to bull market, the burden of proof will remain on the bull side for a considerable time to come, probably at least several months at a minimum.

Our Market-Support indicator, which was discussed at some length here two weeks ago, reflects reduced demand and increased pressure. Similar "back-downs" after a near-crossing of the two lines (when there is a deficit gap in market support) have often, although not always, preceded important declines. As we have said before, it can only indicate the direction. It can not foretell how far a move will carry, and neither can any other technical tool.



Regardless of whether the averages break their previous bear-market lows or hold somewhat above them, a great many individual stocks—probably at least several hundred—are bound to go into new low ground unless the sell-off which began toward the end of last week, **and which is** continuing as we go to press, is halted almost immediately. This is because numerous issues rallied so little from their lows that they have negligible leeway for retreat without making new lows. A glance down the list shows a score or so of new lows at last week's close, and a rather startling number of stocks still above previous lows by only a margin ranging from fractions to 2 points.

Consumer Goods Stocks Weak

Among our weekly group indexes, the following are already at new bear-market lows: aircraft, air lines, amusements, department stores, gold mining, liquors, mail order, radio and textiles. This list, as you will note, runs heavily to consumption-goods lines, although not exclusively so, which rose much above-average during the late bull market, which had abnormally large earnings gains in 1946 and which mostly have below-average prospects for 1947.

Two outstanding facts are that, generally speaking, consumer goods stocks are decidedly out of favor, and so are the most speculative issues regardless of the industry they represent. Thus, the spread between our index of 100 low-price stocks and the index of 100 high-price stocks was wider at the end of last week than at any time since the bear market started. Such recovery as we had centered mainly in durable-goods groups, plus a few perennial investment favorites such as chemicals, drugs, oils, etc. It rested on a light investment demand—coupled with withdrawal of offerings—which can never be counted on to "reach" very far for stocks in an atmosphere of any considerable uncertainty.

Meanwhile the average person is correct in figuring—as the market's behavior shows he has figured—that *there is no percentage to speak of in speculating for bear-market rallies, or regarding them as other than purely fortuitous opportunities for selling.* No doubt some stocks will hold relatively well during the rest of the bear market; but we continue to think, as we have thought from the start, that the chances are that the majority of speculative issues will wind up at unreasonably low levels, rather than merely reasonable ones.

Market action in the period ahead will supply the most reliable clues. For the present defer all buying. —Monday, January 13.

Industrial Balance Sheet

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WITH PREVIEW OF 1947 TRENDS

By W. C. HANSON

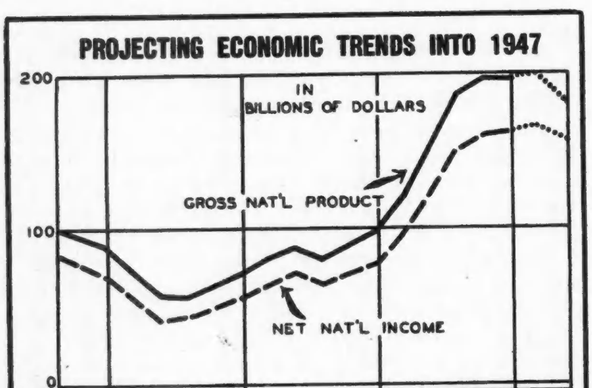
FORECASTING THE BUSINESS OUTLOOK for the new year has become something of an American tradition recently, and since 1947 is a significant period in our postwar history, opinions have not been lacking as to what may lie ahead. As is usually the case, predictions range from undiluted optimism to black pessimism, with the great majority somewhere between these two extremes. And, as is also frequently the case, individual forecasts are largely colored, subconsciously or otherwise, by the hopes and fears of the persons making them. Then, too, many otherwise well-qualified prognostications are based on too limited a premise; while they may be perfectly correct for a particular industry or a given area, they may not be true of our national economy as a whole.

So, in attempting to analyze the business outlook as accurately as possible, and to present a balanced rather than a one-sided picture, it is necessary to weigh both the favorable and adverse elements at work in the business scene. For it is obvious that 1947 business will be the composite result of all these forces, rather than of just the constructive or just the retarding influences. While these basic forces shaping the business outlook are innumerable, most of them can be grouped under fairly general broad classifications, and, in this manner, the principal factors are summarized on the opposite page as the "Dynamic Forces Which Will Influence 1947 Business."

In our "Preview of 1947 Business and Investment Trends" in the January 4 issue, the broad, general trends in the making were discussed. As a sequel to that survey, we consider here some of the specific factors which will determine the character of 1947 business. It will be noted that intangible as well as tangible factors are included, as such intangibles as the improving political atmosphere, changing labor situation, and the trend of foreign affairs, although they cannot be measured in actual figures, will have profound effects on business eventually.

Weighing all these varied factors together only emphasizes the fact that "readjustment" will be the keynote for 1947. With the physical phases of reconversion practically completed, 1947 will see the secondary phases of economic transition back to a true peacetime basis, a condition which has not obtained since 1939, when we began to move toward a war footing.

This is really the central fact of the 1947 business situation, with all other factors of secondary importance. Moving back to a normal peace basis will mean important shifts within our industry and in the pattern of industrial production. Although industrial output since V-J day has been at a high level, production has been centered mainly in the lighter industries—consumer goods, "soft" lines, and semi-durables. Consumer durables and capital goods have been distinctly in second place. But this pattern will change substantially in the year ahead. In 1947 the emphasis (*Please turn to page 458*)



Dynamic Forces Which Will Influence 1947 Business

FAVORABLE FACTORS

IMPROVING POLITICAL ATMOSPHERE — A factor of prime importance, as it impinges upon, and affects every phase of business, especially as regards Government's attitude toward management, labor and free enterprise. Shift in political sentiment, as emphasized in last election, shows trend toward greater conservatism and moderation. Result augurs well for future of free enterprise in this country, and if properly handled, could provide the basis for an era of goodwill in relations among management, labor and government.

RECONVERSION LARGELY ACCOMPLISHED — Postwar reconversion process was largely completed in 1946, though the transition was rough, and beset by strikes and critical supply shortages. Industry is now reestablished substantially on a peacetime basis, placing it in a position to embark upon task of production for postwar period. Dropping of war-created restrictions on prices, production, etc. and ending of war emergency political controls facilitates the transition back to relatively normal conditions.

SUPPLY BOTTLENECKS EASING — In contrast with the acute shortages of materials and component parts last year, 1947 promises an alleviation of many supply bottlenecks and a consequent impetus in meeting consumers' needs.

IMPROVING LABOR SITUATION—Though labor strife is far from over, there is good reason to believe that 1946 saw the high-water mark both of power and excesses by the czars of organized labor. The election mandate last November strengthens the prospect for better-balanced labor legislation this year and for bringing unions to greater accountability. General trend is toward more equitable balance between labor and industry.

AUGMENTED FINANCIAL RESOURCES—Nation's liquid assets (cash, bank deposits, savings bonds, etc.) stood at $222.5 billion last June 30, according to Federal Reserve survey, compared with $65 billion at the end of 1939. Money in circulation approximating $108 billion has trebled since the beginning of the war. Its rate of circulation is now relatively slow; if accelerated even slightly, it could support a huge volume of trade. Such a backlog of resources, far above all previous records, could sustain a prolonged business boom.

RECORD FOREIGN TRADE — American exports rose to the extraordinary level of $10 billions in 1946, while imports increased to a record $5 billions. Still higher peaks for both phases of our foreign trade are forecast for 1947, with exports estimated at about $11 billions and imports at $6 billions. Government and trade experts making these predictions base their forecasts on huge foreign needs for U. S. goods, and continuing Washington policy of aiding these nations by direct and indirect financial assistance.

FEDERAL BUDGETARY IMPROVEMENT — For the first time in fifteen years, the national debt is being reduced rather than increased. From peak of over $279 billions reached last February, it has been scaled down to less than $259 billions, and further substantial reductions are in sight. While this fact itself is highly important, still more significant is the fiscal policy and philosophy motivating such financial stabilization—the trend is away from reckless spending and waste in Government; retrenchment is now in order.

DECLINE IN LIVING COSTS—The downward trend in certain cost-of-living items, which began late in 1946 will continue this year, easing the strain on consumer pocketbooks.

HEAVY INDUSTRY EXPANSION—Aided by record backlogs and firm orders for various types of equipment, capital goods industry is scheduled for rising output in 1947. Consumer durable goods, sales of which were $14 billion last year, are expected to show considerable increase in the year ahead.

UNFAVORABLE FACTORS

DISTORTED PRICE RELATIONSHIPS — The wartime and postwar inflation in operating costs and wages has hit some segments of our economy more directly than others, resulting in cost and price maladjustments. Moreover, numerous retail and wholesale prices have advanced to levels where they are out of line with purchasing power. These, however, are temporary rather than permanent problems, and as the new year progresses, a process of readjustment will be witnessed whereby many abnormalities will be corrected.

POSSIBLE INVENTORY LOSSES—With substantial price markdowns already under way, and more to come, inventory losses are inevitable for some organizations, principally in the retail field. However, the five years of lush prosperity which merchandisers have enjoyed have provided ample reserves to absorb such inventory losses, which in any event, are not expected to run to critical proportions.

DECLINE IN NATIONAL INCOME—Having advanced to the all-time peak of $165 billions in 1946, national income is expected to decline moderately this year, possibly to about $155 billions or a little less. However, a decline of this magnitude is far from serious, and the estimated 1947 income figure is still well above the prewar norm, and almost twice the $83.3 billions reached in the banner year of 1929.

TAPERING OFF IN CONSUMER BUYING—Total consumer buying scored a new record high of $127 billions in 1946, a 25% gain over 1945 and more than double the 1929 rate. Retail sales rose to a new peak of $96 billions. A decline of around 10% is anticipated for 1947 in total spending, reflecting price reductions and moderate drop in aggregate employment.

MODERATE DROP IN INDUSTRIAL OUTPUT — Industrial production at close of 1946 was probably well above 180 level (Federal Reserve Index) and will continue high in early months of 1947. However, some slackening is anticipated later this year, which might bring the yearly average to about 160-162, compared with a 1946 average of around 170.

MINOR INCREASE IN UNEMPLOYMENT — Current employment rate of over 60 millions at work is a boom level which cannot be maintained indefinitely. Concomitant with the aforementioned drop-off in factory production, unemployment might increase to about 5 million from the present nominal level of about 2 million.

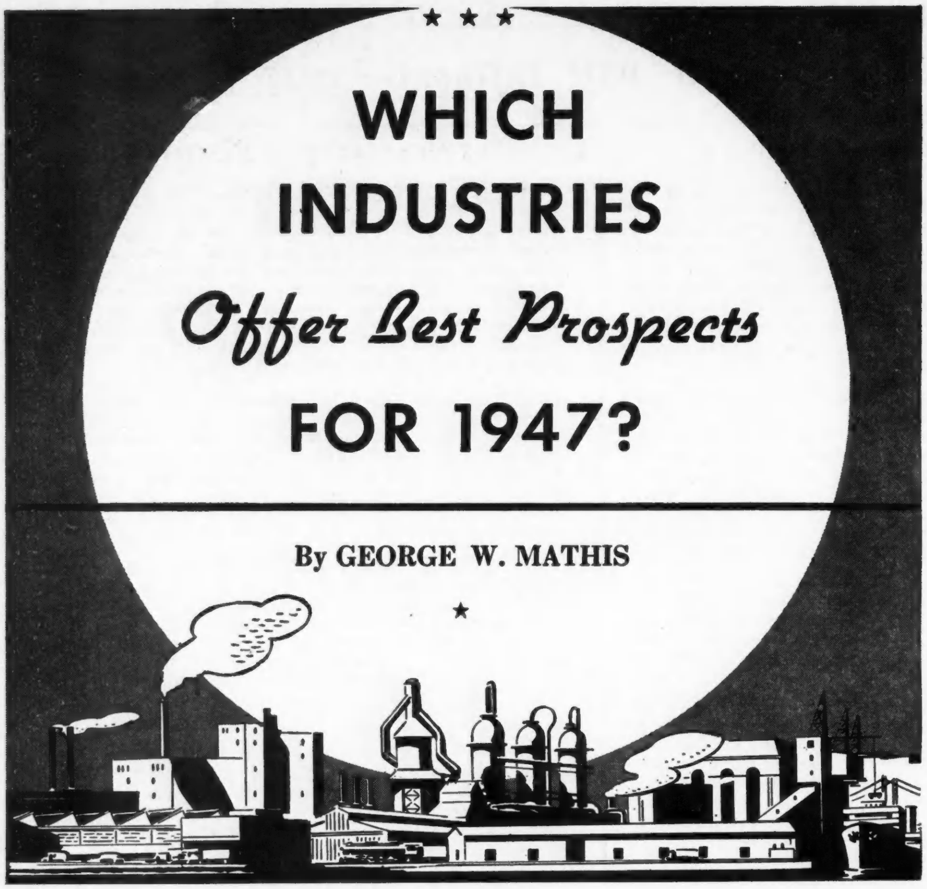
NEW PROBLEMS CONFRONTING BUSINESS MANAGEMENT—While current trends now favor management and free enterprise, certain new problems present themselves to industry. Labor demands are shifting from the traditional wages-and-hours objectives to new goals—participation in profits, guaranteed annual incomes, and indirect pay increases as exemplified by the "portal pay" suits. Misrepresentations are being made of corporate profits, as a basis for wage increases and other demands. Influence of leftist propaganda—both domestically and foreign inspired—on certain labor organizations must also be reckoned with, and free enterprise as a system will be under fire.

UNCERTAIN FOREIGN SITUATION — While United Nations organization is finally off to a good start, the foreign situation leaves much to be desired, with Communist influence spreading through much of Europe and making rapid strides in Asia and Latin America. Russia's intransigeance promises to continue as a major problem, but the prospect of actual war in 1947 is virtually nil.

SUPPLY MALADJUSTMENTS—Though supply bottlenecks are easing, as already indicated, the process is slower in some cases than in others. Net result is an uneven flow of raw materials and component parts, which frequently delays final assembly in some lines and causes temporary maladjustments.

WHICH INDUSTRIES *Offer Best Prospects* FOR 1947?

By GEORGE W. MATHIS



A lot has been said recently about "back to normalcy"—a phrase dating back almost a generation to another postwar transition climaxed by a Republican election sweep. It may be significant that this term now has reappeared to dscribe a national mood. Twenty-six years ago it sparked the beginning of a long sustained industrial expansion.

The Nation once again has the principal ingredients for an ample measure of prosperity. Time will tell whether government, business and labor are capabe of making the most of their opportunity. As the new year unfolds, the attitude of union labor in negotiating new contracts soon will indicate whether we may experience an encouraging increase in production this year and a closer approach to "normalcy" in industrial relationships.

Unless production is hampered by another round of strikes and work stoppages, the outlook for 1947 appears promising for outstanding progress in several major industries. Others seem destined to experience satisfactory results, while a few which boomed during the war may encounter difficulties in the form of overproduction and sharply reduced profit margins. The attitude of labor undoubtedly will be a determining factor in several industries in which wages represent a large part of total production costs. There have been hopeful signs of a greater willingness to buckle down to the job than a year ago, when numerous war plant workers were content to loaf so long as they could draw unemployment compensation. If labor leaders and business executives display a regard for the national interest as they did during the war, 1947 will be a much better year than the prophets foresee.

It is too early to say that there will be no major industry-wide strikes in 1947, but public opinion polls indicate that such tie-ups will not have the popular tolerance they received a year ago. Workers no longer have savings to tide them over long weeks of idleness. Moreover, union treasuries are slimmer than twelve months ago, so relief from that source is far from reassuring. Regardless then of the effect of legislative trends, the rank and file of labor presumably is more willing and anxious to stick to the job, and this attitude augurs well for industrial production.

In the following roundup of industrial surveys, it is assumed that there will be no repetition of strikes in the 1946 scale and that any such disturbances will be limited to minor affairs. Whether or not wage increases are granted to satisfy new demands is immaterial for the purposes of this discussion. In such an environment, it seems likely that these industries should be in position to improve their earnings position: Building Machinery, Metals, Paper, Petroleum and Steel. Those which appear likely to experience satisfactory or average results include: Automobiles, Chemicals Electrical Equipment, Foods, Rails, Rail Equipments, Tobaccos and Utilities. In the third group are those which face greater than usual difficulties: Aviation, Liquors, Merchandising, Movies, Rubbers and Textiles. These industries are discussed in detail below.

Building—All signs point to a record building boom this year. This bright outlook is based on (1) The urgent need for millions of new homes, (2) declining construction costs, due to greater resistance to high prices and to a recently stimulated flow of materials, (3) removal of restrictions that hampered speculative building and (4) likelihood of governmental assistance for political reasons.

Notwithstanding the fine start in face of many handicaps last year, comparatively little progress was made in satisfying the postwar demand for

housing. Thousands of residences constructed in 1946 were makeshifts designed only to meet the emergency then existing. New homes will be needed for families living in quonset huts and other temporary buildings. Trade authorities estimate that twice as many new houses will be completed this year as in 1946. Federal estimates place 1946 completions at less than 700,000 units.

Expanding Construction Business

Trade surveys indicate that materials should be more plentiful in the next few months such as lumber, that had been hoarded for high prices and is now being offered at less than OPA ceilings. This suggests that expenditures for housing may expand in the coming year, which means that estimates of $22 billion for 1947 may be a reasonable forecast. Construction expenditures last year are believed to have approximated $14.5 billion. At the moment, the outlook seems promising for a gain of 50 per cent or more in building activity. An increase of 132 per cent in contracts for apartments, hotels, etc. is forecast by the F. W. Dodge Corp.

Machinery—There is little question of the need for substantial quantities of industrial and farm machinery. Provided current labor problems can be settled and essential raw materials become more abundant, machinery makers may be headed for a banner year. Larger and more efficient machines are needed in industrial plants to combat rising labor costs. For the same reason, farmers' require modern equipment to replace men attracted to higher paying industrial employment. In business offices, too, faster and newer machines are needed to meet present day requirements. The outlook for heavy construction machinery is less promising than for light equipment.

Optimistic manufacturers of agricultural equipment believe the prospect is favorable for production this year in excess of the $1.1 billion record of 1944. To some extent, such an increase could be attributed to higher prices now in effect. Quotations on equipment advanced several months ago when OPA controls were removed.

Price advances on office machines enabled manufacturers to resume normal operations. Materials are becoming more readily available, and production appears headed for record levels, inasmuch as plant capacity has been increased since 1941. Demand for accounting machines and for payroll equipment is reported especially strong, while cash registers are being more widely adopted in retail establishments that previously have used central cashier systems. On the whole, an expansion of from 25 to 33 per cent is anticipated in this industry if labor troubles do not retard the flow of materials.

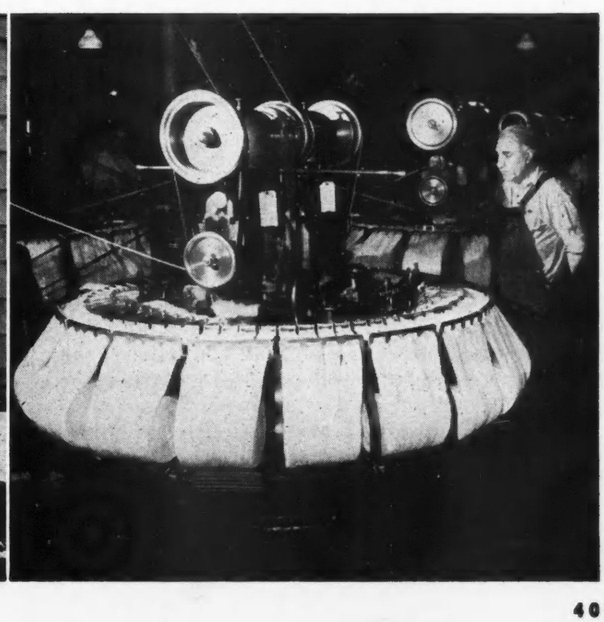
Metals—Because basic metals, such as copper, lead and zinc, are so vitally needed as raw materials in building construction, in the automobile industry, in public utility transmission systems, in electrical equipment and in numerous other lines, it is apparent that demand promises to remain active for some time to come. Prices are at relatively high levels and profit margins are better than at any time since before the war.

Record Demand For Metals

Prospective industrial requirements of non-ferrous metals seem likely to exceed domestic output. American mines are believed prepared to supply only about 850,000 tons of refined copper, compared with indicated needs of about 1.3 million tons. Lead requirements are expected to exceed 1 milllion tons in the coming year, but it is estimated that domestic mines can supply no more than 450,000 tons and considerably less than this amount may be recovered from scrap. Similar conditions prevail in zinc, demand for which is estimated at slightly less than 1 million tons.

Prices of non-ferrous metas have advanced to

Somewhat divergent trends appears shaping up for various industries as the new year progresses. Those who raced ahead fastest in 1946 may now be outdistanced by recent laggards.



levels where they seem capable of bringing in supplies from Canada and from other foreign sources. Although mining costs have increased, profit margins of domestic producers have widened considerably and indications point to more satisfactory results this year for major producers of copper, lead and zinc.

Silver prices have developed a downward course, however, as a result of pressure from British and Asiatic holders. Continuation of this trend should prove favorable for industrial users of the white metal.

Further Rise In Paper Output

Paper—Although additional productive capacity is difficult to obtain, paper producers look for a further modest increase of 10 to 15 per cent in output in 1947. This would mean a new high record in excess of 20 million tons. Production last year, hampered little by labor trouble, approximated 19 million tons for a total surpassing the 1941 peak.

Factors contributing to the promising outlook for paper and paperboard makers include (1) steady growth in per capita use of paper, (2) new uses developed during the war and (3) stronger export demand attributed to worldwide limitations on output during the war. Because of strong demand for pulp and various types of paper, domestic producers appear immune for the time being from foreign competition. Scandinavian costs have advanced and freight rates remain prohibitive.

Paper prices have advanced moderately, enabling producers to offset higher labor costs, but profit margins have been reasonably satisfactory even under OPA regulations, so that any future changes in this industry may be toward lower levels if production can be boosted. Kraft and book paper seem less vulnerable to price competition than newsprint and specialties. In general, paper producers seem likely to maintain profits in 1947.

Oil Outlook Favorable

Petroleum—Relative freedom from labor trouble and prospects for continued good demand for products provide a favorable outlook for the petroleum industry. The authoritative Bureau of Mines estimates probable 1947 demand for refined petroleum products at slightly more than 2 billion barrels. This would mean an increase of about 4 per cent over 1946 requirements. Aside from the secular growth trend in gasoline needs, a further shift from coal to heating oils for fuel promises to enlarge petroleum consumption this year.

Expenditures for exploration appear destined to increase and competition for business may require larger appropriations for advertising and for development of merchandising outlets. Hence, the uptrend in costs that developed last year may be expected to continue as a retarding influence on profit margins. Earnings of principal oil companies have held at exceptionally high levels since the beginning of the war and may not widen further. In general, earnings provide ample coverage for current dividend requirements.

Steel—Peaceful labor conditions probably would mean more for the iron and steel industry than for any other major group of producers. Demand apparently is sufficient to absorb capacity output in 1947, and this would mean almost 90 million tons of ingots and steel for castings. In spite of disruptions last year, the industry produced approximately 65.8 million tons, so that an increase of 25 to 30 per cent presumably could be achieved if no strikes intervene in the mills themselves or in coal and transportation. The industry began the year with operations at about 87 per cent of capacity, and barring unexepected developments, this rate should be lifted gradually in coming months.

Normal profit margins have been restored, and this fact assures substantial earnings provided a high rate of output can be maintained. On basis of recent results, net profits of major companies should top the best war years. This promising outlook is contingent on a satisfactory solution of pending negotiations for a new contract. If managements and union leaders reach an agreement that will permit absorption of moderate wage increases, most companies would be expected to show encouraging improvement in 1947 earnings.

Automobile Uncertainties

Automobiles—Uncertainties related to labor attitudes and supplies of materials shroud the outlook for the highly important automotive industry. Given an adequate flow of steel, copper and other essential materials and harmonious labor conditions, motor car manufacturers undoubtedly could turn out a record volume of new cars this year. Demand is sufficiently strong to assure a ready sale for an indefinite period. Price cuts may be necessary before the end of the year to sustain buyer interest if the industry reaches an annual rate of 4 million cars, but under such conditions, manufacturers probably would be more than willing to shade prices. Earnings in this industry depend almost entirely on maintenance of an uninterrupted high rate of output.

Motor car production last year slightly exceeded the 1938 volume, but fell considerably short of the 1941 total. In the truck division, however, the comparison with the latest pre-war year was more favorable. From a financial viewpoint, the year was disappointing, but trade authorities indicated that the industry had about reached the break-even point in the third quarter. Freedom from work stoppages for an extended period, which unfortunately cannot be assured, would go far toward restoring earning power. This outlook applies equally to producers of accessories as well as to passenger car and truck manufacturers.

Chemical Prospects

Chemicals—Gradual expansion in industrial activity in recent months has been accompanied by a slight gain in output of chemicals, but 1946 production apparently fell slightly below 1945 volume. Profit margins widened late in the year and earnings of representative companies showed satisfactory improvement over the preceding year. With inventories in better shape, the industry may encounter a better balance between supply and demand this

year. This may foreshadow some shading of prices as competition increases. Hence, the outlook for this industry is regarded as no better than average. Relatively good earnings should be maintained, however, and the growth factor for which chemicals are noted seems likely to continue strong.

Electrical Goods and Food

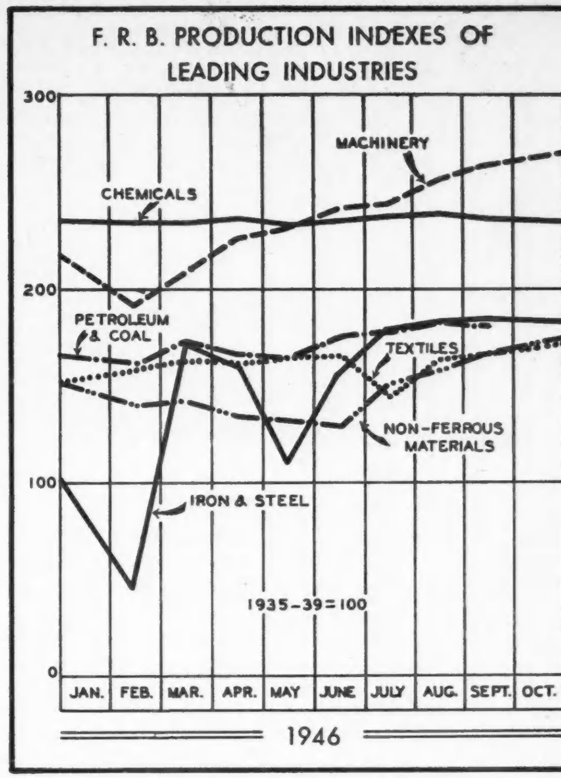
Electrical Equipment—The outlook in electrical goods manufacturing is not unlike that in the automobile industry. Deferred consumer demand is large, raw materials are in greater supply than a year ago, but the labor situation remains unsettled. If wage problems can be amicably solved, the industry should experience favorable results this year. Heavy equipment, such as turbines and generators used in utilities, are in urgent demand, while output of small motors promises to continue at a high rate. Production of major household appliances seems destined to be maintained, but smaller items like irons, toasters and vacuum cleaners are beginning to accumulate on retailers' shelves. Small table radios are in abundant supply, but demand is adequate for console and automobile models. Government statistics show production of radios, electric irons, vacuum cleaners and washing machines has exceeded the 1940-41 monthly average, while output of refrigerators and sewing machines is not far behind the prewar rate. Normal profit margins have been restored, and with steady production earnings in this industry should register improvement.

Foods—Price readjustments loom in the food industry. Substantial declines have occurred in some divisions. Demand promises to hold at a higher level than might be expected if employment were to decline. With exports slackening, it seems likely that supply may get out of balance in the coming crop season. There probably will be a few exceptions, such as sugar and canned fruits. Meats may continue scarcer than usual for a while.

Food processors and distributors face mixed conditions. Some stand to benefit from declining costs of raw materials, while others may be adversely affected by inventory depreciation. In general, processors of corn products find conditions favorable, and similar conditions prevail in dairy products, but even in these groups profit margins are narrowing; on the other hand, grocers are faced with the possibility of falling wholesale prices that may necessitate losses on canned goods purchased on contract. On balance, the outlook in the industry is little better than average.

Changing Rail Picture

Railroads—Prospects for the nation's steam transportation system are decidedly brighter than a year ago, but unfortunately adversity has a habit of upsetting calculations in this group. If disruptions in output of steel, coal and other basic commodities can be avoided, railroads should obtain an increase in freight traffic of at least 10 per cent. Higher rates now prevailing may be expected to add $800 million in gross revenues. Moreover, although maintenance costs are higher and there may be some further slight upward adjustment in wages, the industry



should be able to carrry down to net income a substantial part of additional gross. Competent authorities estimate that the Class I roads should earn upward of $650 million in 1947. Such a showing would represent a vast gain over 1946 and would compare favorably with war years, but the relatively high "break-even" point to which operations have been raised presents a hazard that cannot be completely ignored.

Railroad Equipment—Unless forecasts for railroad earnings prove overly optimistic, the equipment industry should experience substantial improvement. Orders are adequate to assure a high rate of operations if raw materials are available in larger quantities. Government authorities estimate that 350,000 new freight cars and more than 6,000 new locomotives will be required by the Class I roads in the next five years. This would mean expenditures of $350 million or more. In addition, orders for new passenger cars and for diesel locomotives are expected to run into the millions. Production last year failed to keep pace with orders, and the backlog at the end of 1946 represented more than a year's normal output. A higher rate of operations is needed to bolster earnings.

Tobacco—Sales of cigarettes, accounting for a major proportion of the tobacco business, continue to climb to new records. Tax figures indicate 1946 output ran about 20 per cent ahead of 1945 volume, and unless national income declines, it is reasonable to suppose that business this year may keep pace with 1946 results. Price increases enabled manufacturers to regain pre-war profit margins, while the recent drop in (*Please turn to page* 460)

Happening In Washington

By E. K. T.

EFFECT of President Truman's dramatic relinquishment of many wartime executive powers on the eve of the New Year places upon the Republican majorities in Congress the responsibility for dealing with the problems of post-war times on a realistic basis. Even his political foes were ready to agree that the President had performed a statesmanlike act. Had he elected to battle Congress on each and every attempt to eliminate a war power, he could have fought a holding action, bargained for things he wants, made political capital with the general public the loser. Instead, he has placed himself in a good position to win continuance of some of the emergency rules he considers important to the transition period.

WASHINGTON SEES:

The Capital is being treated to some lessons in arithmetic which are not necessarily fallacious because they are new but which in any event have caused a whirring in the heads of the more orthodox pencil-and-paper experts in Washington.

It began with release of the Robert Nathan economic report by the CIO, for which it was prepared. Nathan's premise is that wages can be increased by more than 20 per cent without an increase in prices. Other economists still were trying to reconcile those statements when Rep. Harold Knutson, new head of the House Ways and Means Committee, came along with the assertion that current tax rates can be slashed to the tune of 3.3 billion dollars annually without loss of federal revenue over the long haul.

Nathan documents his statement with numerous chapters, tables and graphs which, for all their impressive size, have failed to convince believers of the theory that costs of production and sales prices must be kept in closer balance than the report suggests. The National Association of Manufacturers has taken issue. Others will later.

Knutson's reasoning is simply stated: business improvement will take up the slack. As expected, Knutson has retreated somewhat from his original promise of 20 per cent reduction "across the board."

The tax cut advocate already has run into opposition in his own party and in Democratic ranks where there is strong sentiment for first balancing the budget and paying off some of the national debt—then reduce ratals. Knutson will invite more opposition by attempting to jam his bill through without public hearings.

COMPULSORY arbitration rapidly is losing the few adherents it had and is not likely to be found in any form in the labor legislation ultimately to be enacted by the new Congress. Senator Ball, leader in the field of labor laws, first espoused the idea, now has abandoned it as ineffective. His position has been indorsed by the advisory committee to the United States Conciliation Service, and by a Labor Department-sponsored conference of utility management and labor representatives. But a minority bloc on the house side of the Capitol will wage a fight for compulsion.

INVESTORS in commercial properties, including hotels, may expect a flood of legislation to be introduced, and some of it enacted under the spur of a series of hotel fires which were accompanied by tragic results. In several states bills are pending to require around-the-clock fire wardens to be added to the maintenance payrolls of larger buildings; others are planning ordinances to require supplementary fire escapes, fire-resistant hallways and other safety measures. Legislatures holding January sessions will be the proving grounds for the new laws.

MARSHALL APPOINTMENT Appointment of Gen. George C. Marshall as Secretary of State to succeed James F. Byrnes was the most hopeful development of recent trouble-laden years. It vastly improves the position of the United States in the international pulling-and-tugging which now passes for diplomacy.

If any doubt exists as to the accuracy of those statements one has put to review Congressional action on the Marshall nomination. The Senators rushed it through with a speed generated both by approval and by relief. (*Please turn to page* 452)

As We Go To Press

Development of pleasure aircraft industry will be delayed by a political fight being waged by wily Mayor Ed Kelly of Chicago. He has intervened at the White House and caused the Civil Aeronautics Administration airport program to be stalled until his and other big cities gather strength to control distribution of the millions Congress voted for federal aid to municipal projects.

The battle is big city vs. little city. CAA is lined up with the smaller communities, wants the funds distributed to create a national network of landing fields. Kelly and his associates want it spent to build huge terminals at fewer points, naturally in large cities.

On the sidelines waiting anxiously are hundreds of prospective small operators. Many veterans are planning to enter commercial aviation on short trip basis, including intercity deliveries; others hope to find uses for war-acquired mechanical skills servicing craft at the numerous ports.

Agricultural experts are casting worried glances at the market prices for farm lands. There has been a rise of 14 per cent in the past year to a level of 83 per cent above the 1935-1939 average. Department of Agriculture is trying without great success to impress upon non-speculative buyers that the long-term earning capacity is the basic factor to be weighed.

Federal guarantee of 90 per cent of parity for farm products is a bolster which will stand in position for at least two years, now that Congress has gotten under way without killing off the emergency powers from which the price support stems. But government aid doesn't extend to all fruits of the land and agricultural economists look for a decline in prices in 1947. Conservative National Grange estimates the farm income drop at about 15 per cent — five per cent in prices and 10 per cent increase in the cost of the things farmers buy.

Frozen food industries will ask Washington agencies to help them fight what they call the "vicious rumor" that federal bank examiners are advising bankers throughout the country that frozen foods are not good collateral for loans. They say the gossip is finding receptive ears, that loans are being called, companies are being pushed toward bankruptcy and cold storage companies are holding a very large bag.

There is absolutely no foundation for the rumor. The Federal Reserve Bank Board, the Comptroller of the Currency in the Treasury, and the Federal Deposit Insurance Corporation — the three federal offices which examines banks and their loans — have made denials. Industry members think Secretary of Agriculture Anderson should pitch in and add to the denials. He may do so, soon.

The swiftly-expanding frozen food industry is covered by the same banking regulations as those which touch other companies. Statutes require that the collateral be readily marketable. Frozen food holdings intended for bakers, processors and preservers (a very substantial part of the total tonnage) currently are moving slowly. That's because sugar isn't available to complete the processing. But that difficulty will be remedied.

No real support for continuance of the Second War Powers Act in toto after March 31 has appeared as yet and the end of all controls on sugar appears an even money bet. A sure bet, however, is a price increase within a matter of weeks, if not days.

Price decline on live animals which became accentuated as 1946 ended is regarded here as without deep significance. Hog prices have been out of line with pork prices. They'll stabilize, then move back up but not to early December levels. Expected removal of export controls and international allocations, especially those to Britain, will be an important factor.

Senator Arthur H. Vandenburg who has had his gaze alternating between two of the top offices in the nation, the Presidency and the portfolio of State Secretary now is concentrating on the former. He is abandoning his activities in the United Nations setup and as president pro tem of the senate will plunge more deeply into domestic issues.

There's a double-barreled reason for the Michigander's decision. He feels the field of international experting is overcrowded and will become more so as the newly elected senators begin displaying their wares, leaving little future there for him, now that he's in his 60s. And he knows that in the event current front-runner Thomas E. Dewey becomes President in 1948, John Foster Dulles will be Secretary of State. Van has been a Presidential aspirant for 15 years, realizes 1948 presents to him a "now or never" opportunity.

Vandenburg has a good record to cite on domestic issues (not suggesting he hasn't been a success in international affairs by any means). The Administration, for example, is pointing proudly to the fact that under FDIC there hasn't been a bank failure in three years, and in the only bank merger requiring FDIC aid no depositor lost a cent. And FDIC was one of Vandenburg's legislative babies.

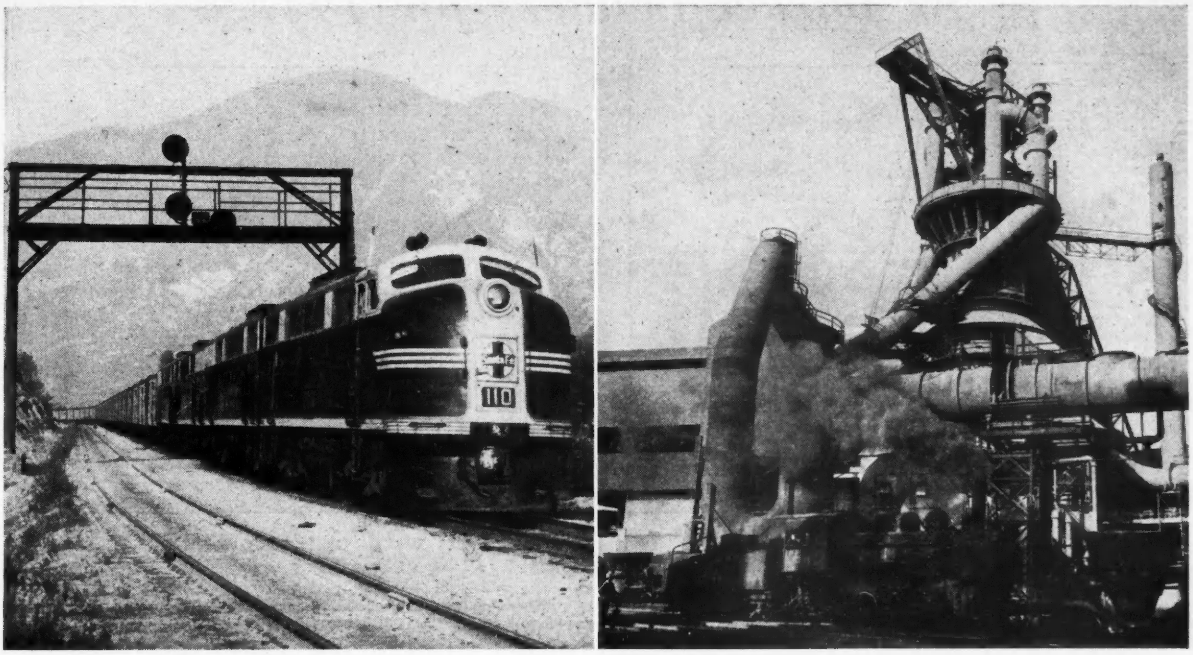
Tightening of rules governing federal loans to veterans for housing has been ordered by the Veterans Administration. First step has been to announce that hereafter VA will name the appraiser to evaluate "reasonable value" for GI loans. For the past 15 months the lender could select any appraiser on a panel of approved experts.

The new procedure was adopted to keep some lenders from using the services of what the government described as "obliging appraisers." Some who adhered to reason-value, so the reports go, were not called upon for services thereafter. Now, the panel is out and the appraiser will be designated by name, his operations more closely supervised than in the past.

Many reasons have been ascribed for exit from the Reconstruction Finance Corporation chairmanship of George E. Allen but both Allen and the many commentators who contributed explanations failed to mention the real cause of his decision to quit: It was the certainty that RFC will have an uncommon amount of attention from the Republican-controlled Congress.

By one of those political and administrative twists that crop up from time to time, the GOP which brought RFC into existence under Herbert Hoover is determined to re-make it along lines that will destroy many of its functions. That will call for protracted hearings on Capitol Hill. Allen simply was not going to expose himself as a target either in his administrative capacity or as an individual. He preferred t exit laughing!

The huge newspaper build-up now being engineered for Clark Clifford, the heretofore anonymous legal adviser to President Truman, soon will have its purpose made clear. The President will consolidate his Cabinet into a smoothly working unit instead of a team of individuals and Clifford will fill a new role as Secretary to the Cabinet. His job will be to streamline the organization, keep it working that way.



On all fronts the Nation's industries are surging ahead at full speed to keep profits and employment at high levels. Big question now is to pick winners and laggards.

10 *Market Leaders For 1947*

By THE MAGAZINE OF WALL STREET STAFF

In studying the ten "thumbnail" analyses of concerns in the following pages it is important that the reader thoroughly understand the basic reasons for their selection by our Magazine. Without this preliminary knowledge, our caption "Market Leaders" might cause confusion or misunderstanding to some people relying upon their personal definition of the term.

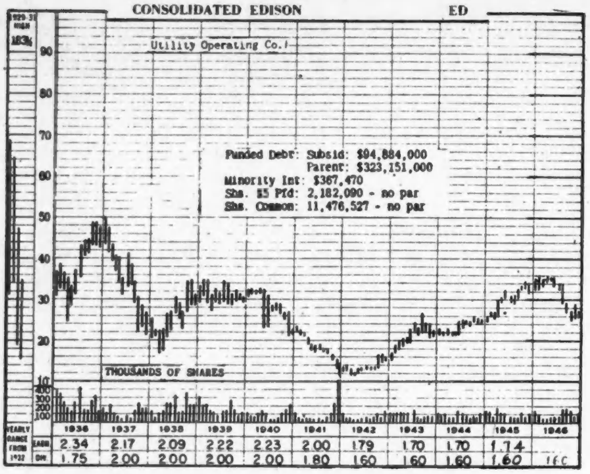
Fundamentally, our choice of the ten stocks has been based upon intrinsic factors which may combine to render the acquisition of these stocks at the right time a cause for satisfaction later on. For advice as to timing we urge our readers to heed the comments of our Mr. A. T. Miller which appear in every number of the Magazine. Such a course should prove wise because we believe that during the current year opportunities will unfold at different periods, in all likelihood, when this and that of the various stocks should be bought.

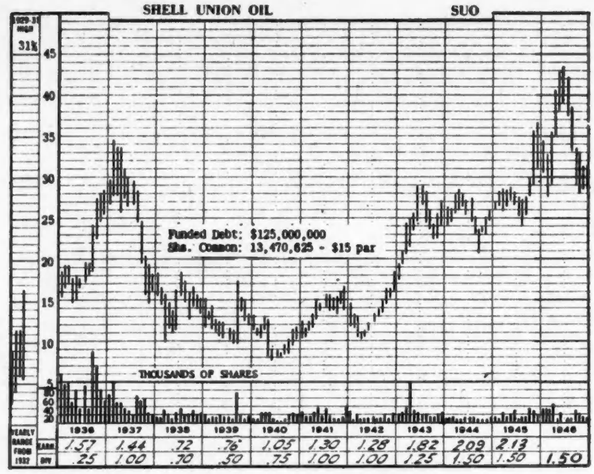
Considerations of mere speculative appeal have played a relatively minor role when we weeded out these special equities from a long list of possible candidates for our favorable opinion. Rather has it been true that sound economic and financial factors have influenced our decisions. Primarily, an income yield above normal expectancies has been a strong determinant of choice, provided past records and future potentials indicate a fair measure of stability or improvement. It is our belief that where earnings and dividends of a concern reflect growth, or a well sustained industry position, the price of its shares will not for long remain at a level much below that warranted by the generally accepted yield for equities of a similar high grade.

Lastly our ten picked favorites include samples from a corresponding number of industries which we consider to enjoy above-average prospects for good business during the current year. All in all, it will be seen that the door is thus opened for diversification in a portfolio which might include all the concerns listed, although the timing of purchase will entail constant alertness. While over any given period, other industries and other concerns than these may well establish a better record marketwise; for one reason or another, an investor acquiring any or all of the stocks tabulated at the proper period should enjoy a confident position for some time to come. In any event, the sound financial status of these companies, their dividend position and good market sponsorship bolster hopes of price enhancement provided the general stock market during the year resumes its uptrend trend.

In conclusion we wish to assure our readers that if unforseeable developments arise during the year which might suggest a revision in the list of concerns presented herewith, prompt steps will be taken.

10 Market Leaders for 1947





CONSOLIDATED EDISON COMPANY

BUSINESS: Company directly or through subsidiaries supplies electricity and gas to a territory which includes practically all of New York City and most of Westchester County to the North. In addition to revenues from industrial and residential sources, Consolidated's customers include the municipal subways and several large railroads. Steam, also, is sold in the Borough of Manhattan.

OUTLOOK: As the company operates in the largest city in the nation, serving a population of over 7.5 million, and in an area ranking tops as to the value of products manufactured as well as to the number of individual concerns, gross income is very substantial as well as stable. Under current conditions the outlook for expanding demand could hardly be brighter or better assured. Indeed, to meet the pressure for additional service, this company plans to spend some $50 million to expand production of current and gas. Despite the fact that average weekly pay of its employees is up 74% since 1930, and electric rates have been steadily lowered for a total of 34% reduction, net earnings have been remarkably stable. This attests to a high degree of operating efficiency. In the near term Consolidated expects to refund most of its $304 million funded debt and 2.1 million shares of preferred at lower interest and dividend rates, which might add several million dollars annually to net income available for the common stock.

DIVIDENDS: Shareholders have never failed to receive a dividend since 1893, the current annual rate of $1.60 having been maintained since 1942. While payment of this rate has absorbed a liberal portion of net income, it seems well assured, with a good chance of improvement over the longer term. Currently the shares yield about 5.9%.

MARKET ACTION: Recent price of 27 compares with a 1946 range of high—36, low—24.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$49,412	$46,324	—$3,088
U. S. Gov't securities	4,000	31,000	+27,000
Receivables, net	22,938	21,800	— 1,138
Inventories	24,213	20,949	— 3,264
Other current assets	2,594	2,502	— 92
TOTAL CURRENT ASSETS	103,157	122,575	+19,418
Plant and equipment	1,259,351	1,174,495	—84,856
Other assets	41,110	26,617	—14,493
TOTAL ASSETS	1,403,618	1,323,687	—79,931
LIABILITIES			
Notes payable	264	....	— 264
Accts. payable and accruals	16,158	21,581	+ 5,423
Reserve for taxes	19,007	21,088	+ 2,081
Consumers' Deposits	5,421	6,237	+ 816
TOTAL CURRENT LIABILITIES	40,850	48,906	+ 8,056
Deferred liabilities	1,090	1,103	+ 13
Minority interest	1,495	367	— 1,128
Long term debt	494,504	418,035	—76,469
Reserves	120,279	173,382	+53,103
Capital	592,790	592,091	— 699
Surplus	152,610	89,803	—62,807
TOTAL LIABILITIES	1,403,618	1,323,687	—79,931
WORKING CAPITAL	62,307	73,669	+11,362
Current Ratio	2.5	2.5	....

Thumbnail Stock Appraisal

SHELL UNION OIL CORPORATION

BUSINESS: As one of the leading integrated concerns in the petroleum industry, Shell holds sixth rank as to size. A large part of its crude production and about 30% of its refineries are centered on the Pacific Coast. Sales are nationwide, besides substantial exports.

OUTLOOK: Prospects for further volume growth are enhanced by the strong trade position established by this company. Marketing facilities include nearly 1000 bulk distributing stations, more than 5700 company owned but privately operated retail outlets and numerous dealers. The Middle West markets take about 45% of the company's products, the balance going about evenly to the East and West Coasts. As Shell is able to obtain about 70% of its requirements for crude from its own wells, its cost controls are correspondingly improved, and sizable pipeline systems tend to minimize transportation problems. All in all, operating efficiency has been increasingly on the uptrend for some years past. Reported net earnings of Shell are considered unusually conservative in that the company charges off from income all of its costs for drilling and development. Net working capital of $146 million at the end of 1945 was the largest in the company's history. With rare exceptions net earnings have been quite stable over a long period, trending upward slowly during war years, and in late periods averaging about $2 per share annually.

DIVIDENDS: Except during the 1931-35 period, Shell has paid dividends regularly since 1922. Including an extra of 50 cents per share, distributions last year amounted to $1.50 per share, as was the case in 1945.

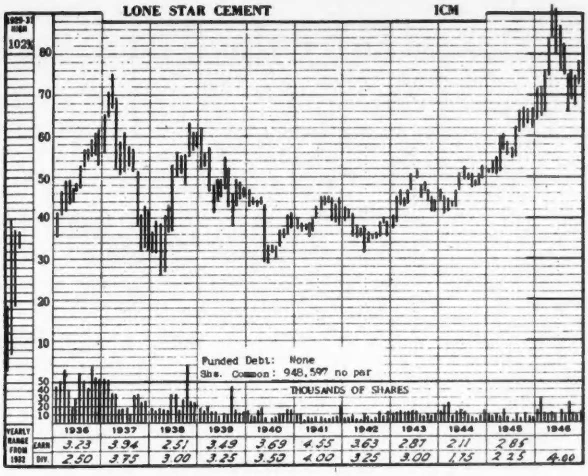
MARKET ACTION: Recent price—30, compared with a 1946-47 high of 43¾ and a low of 27¾.

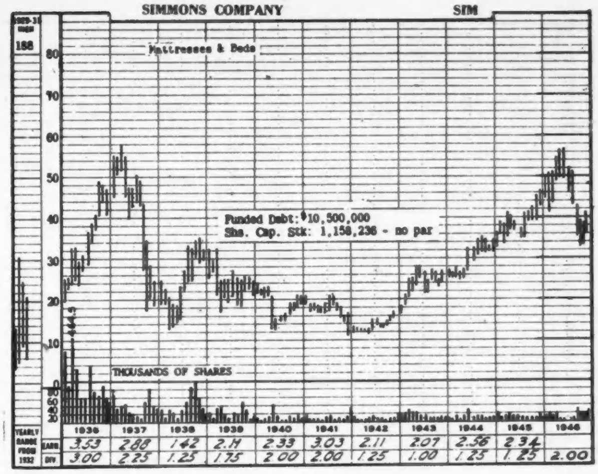
COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$30,879	$48,510	+$17,631
Marketable securities	16,670	61,200	+ 44,530
Receivables, net	32,107	30,824	— 1,283
Inventories	52,143	54,749	+ 2,606
Estimated Refund of Fed'l Taxes	....	12,164	+ 12,164
TOTAL CURRENT ASSETS	131,799	207,447	+ 75,648
Plant and equipment	675,085	740,550	+ 65,465
Less depreciation	446,120	565,295	+119,175
Net property	228,965	175,255	— 53,710
Other assets	37,827	44,216	+ 6,389
TOTAL ASSETS	398,591	426,918	+ 28,327
LIABILITIES			
Notes payable	1,183	3,488	+ 2,305
Accts. payable and accruals	24,670	40,136	+ 15,466
Reserve for taxes	21,878	9,073(a)	— 12,805
Other current liabilities	....	8,333	+ 8,333
TOTAL CURRENT LIABILITIES	47,731	61,030	+ 13,299
Deferred liabilities (contra)	8,744	14,607	+ 5,863
Short term debt	446	....	— 446
Long term debt	108,961	81,641	— 27,320
Reserves	....	17,000	+ 17,000
Capital	196,059	202,059	+ 6,000
Surplus	36,650	50,581	+ 13,931
TOTAL LIABILITIES	398,591	426,918	+ 28,327
WORKING CAPITAL	84,068	146,417	+ 62,349
Current Ratio	2.7	3.4	+ .7

(a) After deducting $8.2 million U. S. Treas'y tax notes.

Thumbnail Stock Appraisal





LONE STAR CEMENT CORPORATION

BUSINESS: Company ranks as one of three leading producers of cement in the United States, besides operating modern plants in Latin America, chiefly in Cuba, Argentina, Brazil and Uruguay. Operations are broadly integrated through ownership of extensive limestone deposits, and ten strategically located plants are handy to markets throughout most of the U. S. East of the Rockies.

OUTLOOK: While competition in this industry has always been severe, Lone Star's cost controls have been so efficient that for many years an unprofitable period has been a very rare occurrence. As to produce annual sales of $30 million hardly more than 4000 employees are required, wage ratios are relatively low. And although plant capacity has seldom been fully used in most locations, manufacturing operations are sufficiently simple to prove flexible when demand grows less. Currently the company is making six kinds of cement (Lone Star brand is the best known) to meet the international requirements for these basic construction material. Prospects for business over an extended period are bright, because when building activities may decline later on, a huge amount of road construction and expansion of public works seems certain to take up the slack. Net earnings for many years past have shown exceptional stability, since 1937 ranging from a high of $4.33 per share in 1941 to $2.17 in 1944. For nine months ended September 30, 1946 net was reported as equal to $3.78 per share, denoting a sharp uptrend. Net working capital at the end of 1945 was at an all time peak of $18.6 million.

DIVIDENDS: Aside from dividend omissions in 1933, distributions have been uninterrupted for a quarter of a century past. From 1937 through 1943 the annual rate was between $3 and $4 per share compared with $2.25 in 1945. During 1946 $4 per share was paid, including a year end extra of 75 cents. On this basis the yield at recent price would be about 5.2%

MARKET ACTION: Price range for 1946-47 has been high—94, low—64 with a recent price level around 77. Considerable volatility is indicated.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$6,053	$6,999	+ $946
Marketable securities	5,644	4,134	— 1,510
Receivables, net	2,325	2,501	+ 176
Inventories	6,147	7,287	+ 1,140
Other current assets	....	592	+ 592
TOTAL CURRENT ASSETS	20,169	21,513	+ 1,344
Plant and equipment	70,725	72,959	+ 2,234
Less depreciation	42,539	49,205	+ 6,666
Net property	28,186	23,754	— 4,432
Other assets	1,992	5,720	+ 3,728
TOTAL ASSETS	50,347	50,987	+ 640
LIABILITIES			
Accts. payable and accruals	1,268	1,584	+ 316
Reserve for taxes	3,993	1,310(a)	— 2,683
TOTAL CURRENT LIABILITIES	5,261	2,894	— 2,367
Consolidation adj. account	71	....	— 71
Reserves	1,483	2,876	+ 1,393
Capital	32,246	32,246	....
Surplus	11,286	12,971	+ 1,685
TOTAL LIABILITIES	50,347	50,987	+ 640
WORKING CAPITAL	14,908	18,619	+ 3,711
Current Ratio	3.8	7.4	+ 3.6

(a) After deducting $762,048 U. S. Treasury Tax Notes.

Thumbnail Stock Appraisal

SIMMONS COMPANY

BUSINESS: Company is the dominant manufacturer of mattresses, box springs, metal beds and other sleeping equipment. The business is the outgrowth of an enterprise established in 1871, thus supplying a high degree of experience in this specialized field. Nearly a dozen plants are operated in the United States, Canada, Mexico and England, in addition to several textile mills in the South.

OUTLOOK: The fundamentally essential character of the company's products strengthens potentials for good volume during several years ahead. During war years net sales exceeded $60 million annually while the company engaged substantially in output for military purposes, but net earnings dipped slightly under heavy taxes and tight Federal prices. Now that reconversion handicaps have been overcome and prospects are improved for better supplies of raw material, the outlook for increasing volume and expanding profit margins is impressive. Despite supply shortages in 1946, the company reported volume for the first half year as $36.9 million, while net per share crept up to $1.90 for this period compared with $1.20 in the relative first half of 1945. Long denied opportunities for replacing bedding equipment during war years, plus the upsurge in new homes now starting, combine to create bright potentials for this leader in its field. Terms of $7.5 million outstanding serial notes, bearing less than 3% interest, provide that dividends must not reduce working capital below $15 million but Simmons now has some $21 million in this column. The company has no preferred outstanding.

DIVIDENDS: Shareholders in Simmons received $2 per share during 1946, 75 cents more than in the previous year. From 1931 through 1935 no distributions were made, but with this exception the record has been unbroken since 1921.

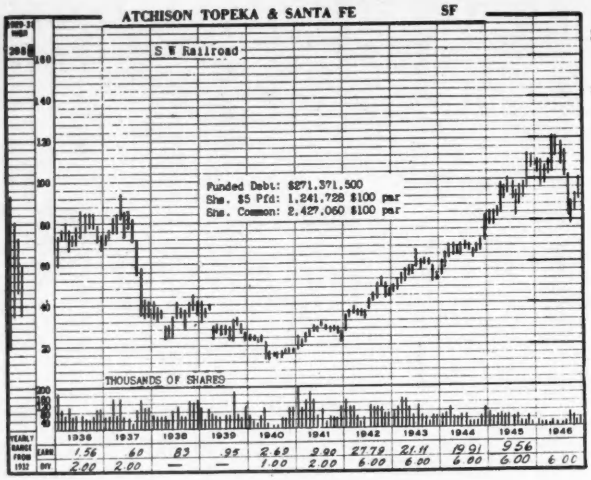
MARKET ACTION: Against a 1946-47 price range of high—56⅞ and low—33, a recent price of around 41 was established. Considerable speculative activity in these shares is sometimes evident.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$3,822	$7,647	+$3,825
Marketable securities	....	2,778	+ 2,778
Receivable, net	8,112	5,245	— 2,867
Inventories	12,467	10,992	— 1,475
Other current assets	....	256	+ 256
TOTAL CURRENT ASSETS	24,401	26,918	+ 2,517
Plant and equipment	36,170	37,504	+ 1,334
Less depreciation	22,800	24,739	+ 1,939
Net property	13,370	12,765	— 605
Other assets	1,109	1,017	— 92
TOTAL ASSETS	38,880	40,700	+ 1,820
LIABILITIES			
Notes payable	....	500	+ 500
Accts. payable and accruals	2,016	2,285	+ 269
Reserve for taxes	5,256	3,191	— 2,065
TOTAL CURRENT LIABILITIES	7,272	5,976	— 1,296
Deferred liabilities	....	39	+ 39
Long term debt	9,846	7,500	— 2,346
Reserves	1,075	1,604	+ 529
Capital	6,166	6,166	....
Surplus	14,521	19,415	+ 4,894
TOTAL LIABILITIES	38,880	40,700	+ 1,820
WORKING CAPITAL	17,129	20,942	+ 3,813
Current Ratio	3.3	4.5	+ 1.2

Thumbnail Stock Appraisal

10 Market Leaders for 1947



ATCHISON, TOPEKA & SANTA FE RAILWAY

BUSINESS: Company's system covers the largest mileage of any road in the United States, serving an extensive area from West and South of Chicago to the Pacific Coast. 13,108 miles of track are operated in this highly productive and much diversified territory. A subsidiary controls over 40,000 acres of oil lands, and others own large interests in lumber, coal, mining and real estate concerns.

OUTLOOK: The rapidly increasing industrial development in the section served by this road, and the prospects for continued agricultural prosperity in it, combine to give promise of well sustained freight traffic which normally accounts for about three quarters of the company's gross revenues. At the same time, modernized passenger trains are attracting a full share of tourists' money, although revenues of this kind are naturally less than when troop transportation was at its peak. Capitalization of the company is relatively compact with $203 million of long term bonds, some 1.2 million shares of preferred and about 2.4 million shares of common. This set up affords quite a measure of leverage for the common, marketwise. Through debt reductions in recent years, total charges have been reduced nearly 30%, and since 1942 earnings have exceeded fixed charges by a margin averaging about 7 to 1. While net earnings have been variable over a long period, they reached peak proportions during war years, declining somewhat in late years. But for 9 months ended September 30, 1946, net applicable to the common was reported equal to $10.36 per share.

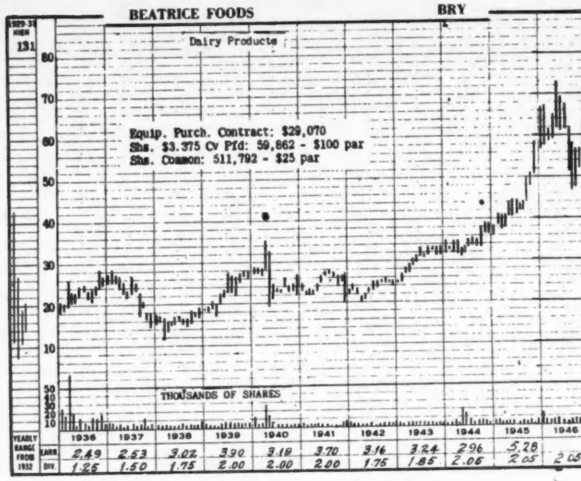
DIVIDENDS: In only three years since 1900 have payments to common shareholders been interrupted, although the rate has varied considerably. From 1942 to date $1.50 per share has been distributed in every quarter. At recent price levels this would provide a yield of slightly above 6%.

MARKET ACTION: The 1946-47 price range for this stock was high —121, low—78, with a recent level of 97.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$25,459	$33,580	+ $8,121
Marketable securities	2,165	121,938	+119,773
Receivables, net	13,066	39,774	+ 26,708
Inventories	27,770	39,289	+ 11,519
Other current assets	16,561	4,678	— 11,883
TOTAL CURRENT ASSETS	85,021	239,259	+154,238
Plant and equipment	1,210,936	1,326,097	+115,161
Investments	43,793	39,155	— 4,638
Other assets	5,111	4,605	— 506
TOTAL ASSETS	1,344,861	1,609,116	+264,255
LIABILITIES			
Accts. payable and accruals	27,698	65,730	+ 38,032
Reserve for taxes	16,455	57,054	+ 40,599
Other current liabilities	3,480	8,136	+ 4,656
TOTAL CURRENT LIABILITIES	47,633	130,920	+ 83,287
Deferred liabilities	7,304	12,548	+ 5,244
Gov't grants	3,533	....	— 3,533
Long term debt	323,421	230,632	— 92,789
Reserves for Depreciation	198,789	362,280	+163,491
Capital	367,597	367,597	....
Surplus	396,584	505,139	+108,555
TOTAL LIABILITIES	1,344,861	1,609,116	+264,255
WORKING CAPITAL	37,388	108,339	+ 70,951
Current Ratio	1.8	1.8	....

Thumbnail Stock Appraisal



BEATRICE FOODS COMPANY

BUSINESS: Activities of this strongly established concern, formerly known as Beatrice Creamery Company, date back to 1905. The company now ranks third as to sales volume in the dairy industry, partly due to gradual acquisition of numerous subsidiaries now 100% owned.

OUTLOOK: Aside from operation of six modern refrigeration plants in large Midwestern cities, company produces butter, ice cream, powdered milk, processes fluid milk and poultry products in 21 States in the middle and Western half of the country, with emphasis upon Illinois, Indiana and Ohio. 2000 cream buying concerns ship their products to the company's plants. Like its big Eastern competitors in the industry, Beatrice has become well entrenched in its special area and through insistence upon high quality and fair prices has built up an excellent business. Volume has trended almost steadily upward from $44.8 million in 1934 to above $125 million for the year ended in February, 1946. Due to extra heavy allowances for depreciation in 1933 and 1934, a small deficit occurred in those years, but an uptrend continuing until 1946 raised net to $5.28 per share. For 12 months ended August 31, 1946 net per share was reported as $7.19, indicating further improvement. Only about 59,000 shares of 3⅜% preferred are senior to the common, and current assets exceed current liabilities in a ratio of approximately 6 to 1.

DIVIDENDS: Distributions since 1923 have been rather stable, with omissions recorded only during 1933-34. During the past decade the annual dividend rate has ranged narrowly between $1.50 and $2.05 per share. In 1946 this latter rate was maintained as in the two previous years.

MARKET ACTION: Recent price—60, compared with a 1946-47 high of 73 and a low of 46½.

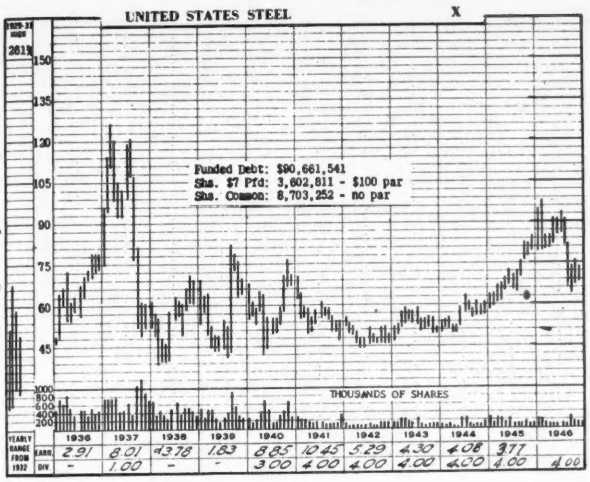
COMPARATIVE BALANCE SHEET ITEMS

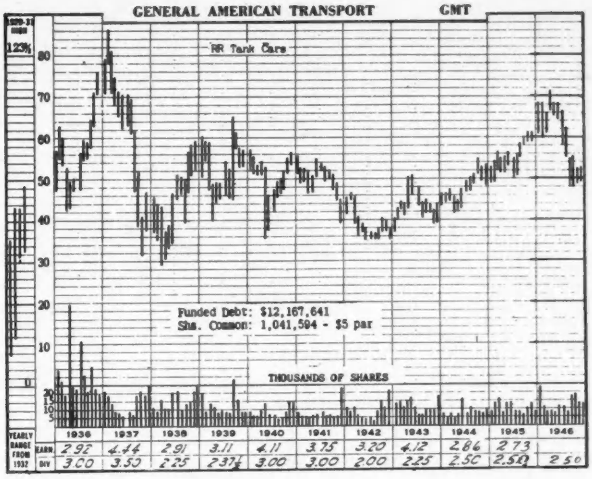
ASSETS	Feb. 28, 1942	Feb. 28, 1946	Change
	(000 omitted)		
Cash	$3,759	$4,133	+ $374
Receivables, net	4,771	4,211	— 560
Inventories	3,539	6,322	+ 2,783
Other current assets	....	130	+ 130
TOTAL CURRENT ASSETS	12,069	14,796	+ 2,727
Plant and equipment	30,651	31,028	+ 377
Less depreciation	18,189	18,692	+ 503
Net property	12,462	12,336	— 126
Other assets	941	2,136	+ 1,195
TOTAL ASSETS	25,472	29,268	+ 3,796
LIABILITIES			
Accts. payable and accruals	648	2,118	+ 1,470
Reserve for taxes	1,300	396(a)	— 904
TOTAL CURRENT LIABILITIES	1,948	2,514	+ 566
Deferred liabilities	60	100	+ 40
Minority Interest	5	....	— 5
Capital	18,678	18,781	+ 103
Surplus	4,781	7,873	+ 3,092
TOTAL LIABILITIES	25,472	29,268	+ 3,796
WORKING CAPITAL	10,121	12,282	+ 2,161
Current Ratio	6.2	5.9	— .3

(a) After deducting $4.4 million U. S. Treas'y Tax Notes.

Thumbnail Stock Appraisal

10 Market Leaders for 1947





UNITED STATES STEEL CORPORATION

BUSINESS: The world's largest producer of iron and steel, accounting for about one third of all domestic output. Numerous subsidiaries provide ownership of huge ore deposits, a fleet of ocean gcing steamships, cement plants and metal fabricators.

OUTLOOK: Dependence of practically every form of industry upon iron or steel products in some form assures large volume for this giant concern in meeting record breaking peacetime demand. Given a fair chance to get into its real stride during 1947, through the possible easing of labor strife, Big Steel should emerge into a period when its expanded and modernized facilities, plus its traditional manufacturing know how, could produce highly satisfactory profits. Barring serious work interruptions in its own plants and those of its large customers, all factors point to a very encouraging business right ahead for all of the numerous divisions of the company. Since the war end, the management has pruned out a number of marginal subsidiaries, has acquired several huge Government-built plants and is building other modern giants of its own. While operations are too complex for comment with limited space, above average production should hold net earnings at a fair level despite the uptrend in costs. That the management has not lost its optimism despite the costly strikes las year is shown by its expansion program involving outlays of more than $200 million.

DIVIDENDS: With working capital at the end of 1945 of more than $600 million, the company felt warranted in declaring quarterly dividends at the rate of $1 per share in 1946, as during the preceding five years, although not fully covered by earnings last year. This rate appears stable unless a second strike wave looms up.

MARKET ACTION: Price range of this active stock during 1946-47 was high—97⅜, low—65⅛. Recent price 72, yielding 5.6%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$282,062	$231,820	—$50,242
Marketable securities	69,148	197,537	+128,389
Receivables, net	140,600	117,804	— 22,796
Inventories	291,651	270,600	— 21,051
TOTAL CURRENT ASSETS	783,461	817,761	+ 34,300
Plant and equipment	2,410,675	2,409,768	— 907
Less depreciation	1,303,682	1,707,264	+403,582
Net property	1,106,993	702,504	—404,489
Other assets	154,567	370,504	+215,937
TOTAL ASSETS	2,045,021	1,890,769	—154,252
LIABILITIES			
Notes payable	12,056	14,077	+ 2,021
Accts, payable and accruals	114,580	159,952	+ 45,372
Reserve for taxes	161,030	40,388	—120,642
TOTAL CURRENT LIABILITIES	287,666	214,417	— 73,249
Deferred liabilities	36,542	....	— 36,542
Minority Interest	5,140	2,583	— 2,557
Long term debt	181,238	78,639	—102,599
Reserves	120,895	169,146	+ 48,251
Capital	1,013,025	1,012,914	— 111
Surplus	400,515	413,070	+ 12,555
TOTAL LIABILITIES	2,045,021	1,890,769	—154,252
WORKING CAPITAL	495,795	603,344	+107,549
Current Ratio	2.7	3.8	+ 1.1

Thumbnail Stock Appraisal

GENERAL AMERICAN TRANSPORTATION CORPORATION

BUSINESS: Company owns some 55,000 tank, refrigerator and live stock cars which it leases upon long or short term contracts to industrial users. Additionally, this concern is one of the leading builders of railway freight cars and owns immense tank storage facilities at important deep water transfer points. Distributing offices and repair plants are located throughout the country.

OUTLOOK: The specialized equipment provided by the company, and its ability to service it properly, has rendered the enterprise increasingly popular with large industrial concerns dependent upon raillway cars of a particular type. In recent years such concerns as Swift & Co., Proctor & Gamble, Texas Co., Armour & Co. and others of like caliber have sold much or all of their rolling stock to GATC, but contracting to use it on lease for a long term of years. Revenues from this source assure a high degree of stability to the company's earning power, although business in the car building division is quite sensitive to cylical influences. Currently, however, some of the railroads are placing sizable orders with this concern for specialized freight and express equipment, with good prospects that volume from this source will continue to expand. As long as industrial activity remains intense, demand for GATC's available rolling stock on a lease basis from occasional users also should tend to expand profits. The earnings record for several decades has been remarkably stable, with net per share equalling $2.20 even in 1932. For the first nine months of 1946, net was reported as $2.14 per share.

DIVIDENDS: An unbroken record of distributions since 1919 has been achieved, with shareholders receiving a liberal share of earnings. For several years past the annual rate has steadily held at $2.50 per share.

MARKET ACTION: Recent price—50, providing a yield of 5%. Price range for 1946-47 was high—71½, low—48, evidencing considerable market vigor.

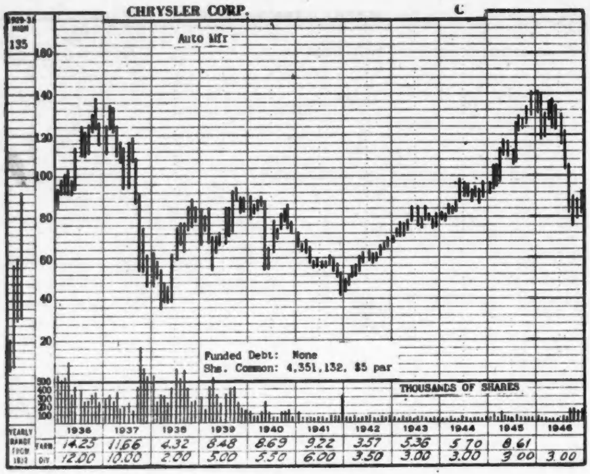
COMPARATIVE BALANCE SHEET ITEMS

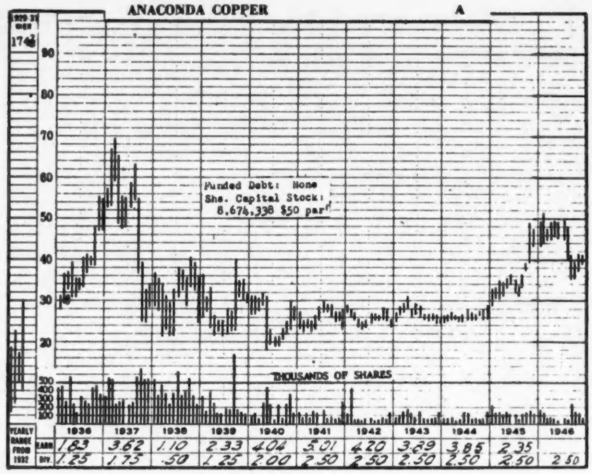
ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$2,713	$8,405	+$5,692
Marketable securities	....	10,659	+10,659
Receivables, net	4,459	4,924	+ 465
Inventories	10,860	8,419	— 2,441
Other current assets	....	1,432	+ 1,432
TOTAL CURRENT ASSETS	18,032	33,839	+15,807
Plant and equipment	136,540	142,641	+ 6,101
Less depreciation	57,211	86,465	+29,254
Net property	79,329	56,176	—23,153
Other assets	4,813	3,898	— 915
TOTAL ASSETS	102,174	93,913	— 8,261
LIABILITIES			
Notes payable—VT loan	....	1,373	+ 1.373
Accts. payable and accruals	4,808	8,600	+ 3,792
Reserve for taxes	4,398	720(a)	— 3,678
TOTAL CURRENT LIABILITIES	9,206	10,693	+ 1,487
Minority Interest	3	291	+ 288
Long term debt	28,769	15,537	—13,232
Reserves	1,121	881	— 240
Capital	5,205	5,208	+ 3
Surplus	57,870	61,303	+ 3,433
TOTAL LIABILITIES	102,174	93,913	— 8,261
WORKING CAPITAL	8,826	23,146	+14,320
Current Ratio	1.9	3.1	+ 1.2

(a) After deducting $3½ million U. S. Treasury Tax Notes

Thumbnail Stock Appraisal

10 Market Leaders for 1947





CHRYSLER CORPORATION

BUSINESS: Company ranks next to the top among domestic producers of motor vehicles, besides owning substantial subsidiaries in 15 foreign countries, many of which are just about to streamline their output. Manufacture of marine engines and air conditioning equipment also serves to increase volume.

OUTLOOK: During 1947 it seems likely that for the first year since Pearl Harbor, this concern may resume with some freedom its competitive inroads upon markets hungry for new cars of all kinds. Although Chrysler made adequate wage adjustments early last year, and had fully prepared its many plants for all-out civilian production of Chrysler, Dodge and De Soto passenger cars and trucks, the drastic shortage of steel and suppliers' parts held operations to a level far below normal. To the credit of the company, however, it managed to produce 490,565 units during the first nine months of 1946 and to show net earnings during this period equal to $2.37 per share. Granted a fairly clear road ahead, as appears possible, Chrysler should push production to record peacetime heights. During 1947, at least, the advanced prices now in effect should prove no deterrent to buyers, and with large scale production profit margins should widen despite the sharp uptrend in manufacturing costs. Working capital of over $192 million is buttressed by a revolving credit for $100 million with banks. During six immediate prewar years, net earnings averaged better than $9 per share and should at least duplicate this showing under normal conditions, granted these exist in the months ahead.

DIVIDENDS: During twenty years Chrysler has consistently made dividend payments, although the rate has varied. Since 1942 the annual rate has been $3 per share, and in the 1939-41 period ranged from $5 to $6 per share.

MARKET ACTION: Recent price—91, with a price range of high—141, low—75¼ during 1946-47 to date. The shares evidently are sensitive to changes in market psychology.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Sept. 30, 1946	Change
	(000 omitted)		
Cash	$60,469	$102,479	+$42,010
Marketable securities	9,302	32,260	+ 22,958
Receivables, net	38,894	31,805	— 7,089
Inventories	77,986	101,797	+ 23,811
Other current assets	....	10,155	+ 10,155
TOTAL CURRENT ASSETS	186,651	278,496	+ 91,845
Plant and equipment	103,959	137,437	+ 33,478
Less depreciation	45,665	52,129	+ 6,464
Net property	58,294	85,308	+ 27,014
Other assets	10,357	8,988	— 1,369
TOTAL ASSETS	255,302	372,792	+117,490
LIABILITIES			
Accts. payable and accruals	53,734	83,196	+ 29,462
Reserve for taxes	5,681(a)	14,769	+ 9,088
TOTAL CURRENT LIABILITIES	59,415	97,965	+ 38,550
Reserves	18,496	24,015	+ 5,519
Capital	21,755	21,755	....
Surplus	155,636	229,057	+ 73,421
TOTAL LIABILITIES	255,302	372,792	+117,490
WORKING CAPITAL	127,236	180,531	+ 53,295
Current Ratio	3.1	2.8	— .3

(a) After deducting $25 million U. S. Treasury Tax Notes.

Thumbnail Stock Appraisal

ANACONDA COPPER MINING COMPANY

BUSINESS: Anaconda, including its numerous subsidiaries, is the largest producer of copper in the world, not to mention substantial quantities of gold, silver, zinc and lead. Lumber and coal also are important factors. Low cost copper production in Latin America is predominant in the company's operations. Fabricating subsidiaries include American Brass Co. (largest in the country) and Anaconda Wire and Cable Co. Large smelters and refiners also tend to produce integration and diversification.

OUTLOOK: Due to the current large demand for non-ferrous metals of all kinds by numerous industries striving to capitalize upon their expanding peacetime opportunities, Anaconda's prospects for 1947 appear bright indeed. Whereas last year's earnings were severely affected by strikes at home and abroad, mounting costs and tight OPA pricing, the immediate road in the offing seems cleared of many handicaps. Anaconda, when freed from OPA restrictions promptly raised the price of many metals, shoving that of copper up to 19.5 cents a pound and with a liberal boost for lead. With a sharp decline in the Government's stockpile and no overburden of scrap copper, miners both at home and abroad can probably operate very profitably during all of 1947. That Anaconda earned only $1.52 per share in the first nine months of 1946, against $2.16 in the same period of 1925 represents a trend which now should be reversed. In 1940, a normal prewar year, net was equal to $5.01.

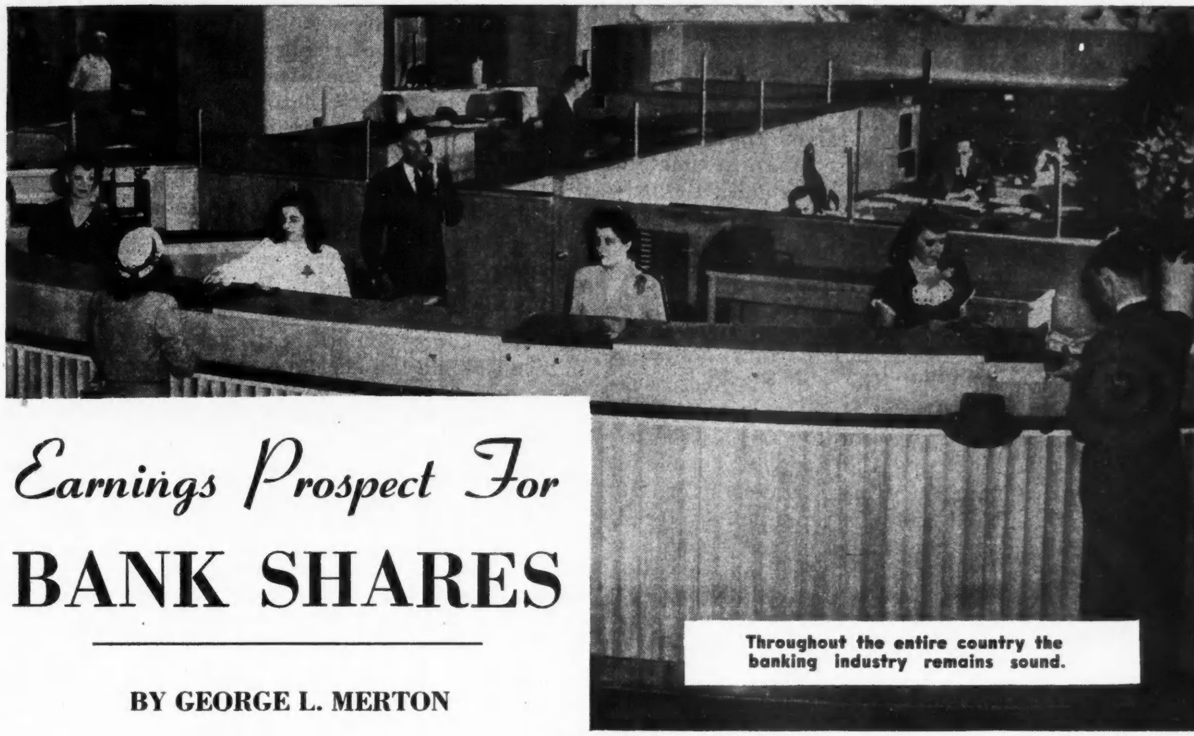
DIVIDENDS: Anaconda shareholders have received varying dividends in all but severe depression years for nearly a half century past. For six years now the rate has been $2.50 per share.

MARKET ACTION: At a recent price of 39 the shares yield 6.4%. High for 1946-47 was 51⅞, low 35.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1945	Change
	(000 omitted)		
Cash	$64,825	$50,788	—$14,037
Marketable securities	14,017	77,499	+ 63,482
Receivables, net	23,772	18,389	— 5,383
Inventories	63,320	62,693	— 627
U. S. E.P.T. Refund Bonds	....	1,159	+ 1,159
TOTAL CURRENT ASSETS	165,934	210,528	+ 44,594
Plant and equipment	595,107	583,077	— 12,030
Less depreciation	182,174	222,860	+ 40,686
Net property	412,933	360,217	— 52,716
Other assets	47,055	45,313	— 1,742
TOTAL ASSETS	625,922	616,058	— 9,864
LIABILITIES			
Notes payable	4,000	....	— 4,000
Accts. payable and accruals	11,443	14,440	+ 2,997
Reserve for taxes	32,239	25,238	— 7,001
Reserve for taxes	32,239	25,238	— 7,001
TOTAL CURRENT LIABILITIES	47,682	39,678	— 8,004
Deferred liabilities	258	637	+ 379
Deferred Liabilities	258	637	+ 379
Adv. from U. S. Gov't (contra)	116,330	3,520	—112,810
Minority Interest	4,705	3,809	— 896
Long term debt	16,935	....	— 16,935
Reserves	6,295	6,714	+ 419
Capital	433,717	433,717	....
Surplus	....	127,983	+127,983
TOTAL LIABILITIES	625,922	616,058	— 9,864
WORKING CAPITAL	118,252	170,850	+ 52,598
Current Ratio	3.5	5.3	+ 1.8

Thumbnail Stock Appraisal



Throughout the entire country the banking industry remains sound.

Photo by Press Association

Earnings Prospect For BANK SHARES

BY GEORGE L. MERTON

THE NATION'S BANKS ENTER 1947 with good prospects of sustaining operations for another year on a sound and profitable basis such as featured the year just ended. Granted this premise, the banking industry for the third year in a row may well establish a period during which the Federal Deposit Insurance Corporation has had practically nothing to do except to rake in premiums, for bank failures of late have become literally unknown. Net earnings, also, have held at a satisfactory level during 1946, with every evidence that, despite some major changes in the banking scene, the New Year will bring comfortable profits to the large institutional money lenders.

Reduced Federal Holdings

During the year just ended, and particularly during the latter half, the long anticipated trend toward reduced Federal borrowing got well under way. Large scale retirement of Treasury bills, certificates of indebtedness and notes, mainly achieved through withdrawals of sizable Government deposits piled up from unneeded proceeds of the last Victory Loan, resulted in a contraction of lendable assets enjoyed by the banks compared with a year earlier. Aside from their capital and accumulated reserves, of course, the banks depend entirely upon their deposits for lending and revenue producing potentials, so that any substantial shrinkage in deposits should logically be attended by a corresponding dip in gross income. But as it happens, private deposits have made gains which partially offset withdrawals by the Government, and a sharp increase in more profitable business loans has helped to bolster earnings. On balance, therefore, it seems likely that when full figures for 1946 can be studied, net earnings on capital asets will not vary widely from the approximate 11% level reported for 1945, although some decline is certain. As for 1947, granted a fairly balanced stability throughout the nation, there are factors which may combine to support predictions pleasing to holders of leading bank shares.

Outlook Ahead

While changes which occurred last year are no reliable index of what may be expected in 1947, it is true that some of the trends bred may extend their impacts during the current year. For this reason it is wise to study more closely some of the variations which sprang up in 1946. During the first nine months alone of last year, it is reported that United States Government deposits decreased by some $15 billion, but in the process of liquidating Federal securities only $9.5 billion came from the portfolios of banks, the balance being held by outsiders. Funds resulting from this latter source, plus credits created from expanded business loans, helped towards an actual increase of about $9.4 million in individual and business balances with the banks, of which some $5 billion represented demand deposits and $4.5 billion time deposits. Despite heavy withdrawals by the Government, accordingly, the over-all decrease in bank deposits came to about $5.5 billion by mid-fall. As of a later date — December 11 — member banks in 101 cities reporting to the Federal Reserve System, showed an increase of only about $4 billion in demand and time deposits, against a decrease of $14.6 billion in the Federal category.

But Treasury bank balances, which in the spring

of 1946 topped $22 billion, have now been reduced to around the $2 billion mark, in line with debt reduction policies, which have cut the Federal debt down around $259 billion now. Henceforth, any more substantial reductions of this kind, aside from an approximate further decrease of approximately $1 billion in the current month, must await the balancing of the Federal budget, along with such debt retirements as Congress may make possible from year to year. Hence, large scale holdings of Government securities of one kind or another will continue to bolster bank earnings as formerly, although upon a reduced scale. What an important factor the modest yields upon U. S. Government obligations create in the banking world is shown by the Controller of the Currency. According to this source, the national banks during the first six months of 1946 enjoyed certain operating revenues of $412.8 million, of which $361.6 million represented interest from Federal obligations, against only $51.2 million which came from interest and dividends received from other securities. Even interest and discounts on loans came to only $226 million, or far short of revenues from the Government source. While from now on this near-riskless status of the banks should gradually become subject to change, as holdings of Government securities shrink and more normal forms of loans take up the slack, *for a long time to come bank shareholders should enjoy warrantable confidence in the soundness of their chosen medium.*

Operating Costs Mount

In the scanning earnings potentials for 1947, the change-over from abnormal wartime operations to those more nearly akin to peacetime practices has brought in its wake a number of encouraging factors as well as serious problems. Banks differ little from all other kinds of enterprise when it comes to facing the impact of rising costs of doing business. Gauged again by the experience of the national banks during the first half of 1946, an expansion of $34.4 million in outlays for wages, salaries and directors' fees occurred, compared with the same period of 1945. As during the last half of the year, operating costs undoubtedly continued to mount and may do so during the current year, new or more profitable sources of gross revenue must be found to keep net on an even keel. During the period mentioned, payments of interest on time and savings deposits likewise climbed to the extent of some $10.9 million. While the accumulation of added deposits, to be sure, accounted for the increase in large measure, it is equally true that competition has started a minor wave of uptrends in interest disbursed to depositors. Fractional though these contractural gains are, they mount up to sizable proportions when spread over huge deposit totals.

Net Earnings Decline

From preliminary year-end reports of big banks in the nation's larger centers it is apparent that, generally speaking, net earnings declined moderately compared with the previous year, or in contrast with the showing for the first half of 1946. In view of the rather sharp contraction in lending assets, which we have already discussed, this was only a natural expectancy. In a few cases earnings showed an up trend, reflecting larger revenues from profit taking upon security portfolios or recoveries from poor debts. Moreover, a change in policies as to the character of Government securities acquired for bank portfolios sometimes resulted in improved earnings. Whereas average income from this source came to around 1.3%, a shift from low yield Government notes and bills to longer term Federal obli-

Earnings Comparison of Principal Banks

	Total Assets		Deposits	Loans and Invest-ments*	Gross Receipts (000 omitted)	Net Income (000 omitted)		Net Per Share		1946	Current Bid	
	1945	1946	1946	1946	1946	1945	1946	1945	1946	Dividend	Price	Yield
Bank of America (San Francisco....	$5,626	5,765	5,416	4,598	....	$23,881	$28,963	$2.88	$3.39	$2.00	$47	4.2%
Bank of Manhattan	1,359	1,130	1,055	794	20,340	6,248	5,111	3.12	2.55	1.20	29	4.1
Bank of New York	437	358	326	242	....	1,986	....	33.11	....	14.00	367	3.8
Bankers Trust	1,922	1,565	1,390	1,196	21,517Se9	45,362	40,689Se9	15.12	13.56Se9	1.70	44	3.8
Brooklyn Trust	295	253	235	190	....	993	....	12.12	....	5.50	129	4.2
Central Hanover Bank & Trust	1,972	1,865	1,500	1,241	23,993	12,249	10,044	11.67	9.57	4.00	104	3.8
Chase National Bank	6,092	4,865	4,495	3,657	....	26,540	22,200	3.59	2.99	1.60	39	4.1
Chemical Bank & Trust	1,637	1,347	1,226	1,098	....	7,693	....	3.31	3.18	1.80	46	3.9
Commercial National Bank & Trust..	270	229	204	180	....	1,599	1,439	4.57	4.03	1.60	44	3.6
Continental Bank & Trust	218	196	182	142	....	886	....	1.77	....	.80	19	4.2
Corn Exchange Bank & Trust	882	842	798	591	....	3,632	3,829	4.84	5.10	2.40	60	4.0
First National Bank of N. Y.	1,012	797	654	637	15,587	12,291	10,601	122.91	106.01	80.00	1660	4.8
Guaranty Trust	3,813	2,893	2,501	2,293	46,593	21,253	19,751	23.61	21.94	12.00	337	3.5
Irving Trust	1,428	1,150	1,021	874	9,832Je6	6,108	3,655Je6	1.22	.73Je6	.80	19	4.2
Manufacturers Trust	2,693	2,434	2,287	1,774	38,191	10,524	10,842	5.34	5.43	2.40	58	4.1
J. P. Morgan & Co.	797	654	584	498	7,052Se9	5,085	2,775Se9	25.43	13.88Se9	8.00	266	3.0
National City Bank	5,434	4,977	4,664	3,608	....	25,526	22,788	4.12	3.67	1.60	45	3.5
New York Trust	951	730	655	545	11,791	4,766	3,352Se9	7.94	7.25Se9	4.00	102	3.9
Public National Bank & Trust	579	588	552	461	....	2,094	....	4.76	....	1.61¼	45	3.6
United States Trust of N. Y.	178	165	132	133	....	1,856	....	46.42	....	51.25	735	6.9

* Including U. S. Gov't Securities. Je6—For 6 months ended June 30, 1946 . Se9—For 9 months ended Sept. 30, 1946.

gations sometimes proved constructive.

During 1947 it is quite possible that while Government deposits will remain relatively stable, those of an individual and business definition will continue to rise. And to find a lending outlet for these, there is a good chance that industrial borrowings and an expansion in consumer credit will fill the bill. Commercial, industrial and agricultural loans expanded by over $3 billion during 1946 and the trend probably will be accentuated during the current year. To meet needs for larger inventories at higher prices, most industries have found their cash resources inadequate for the purpose, and, as always, have turned to their banks for temporary accommodation. Barring a new strike wave, it now seems as if for many months yet business borrowing will continue at a high level until production and demand strike a final balance. While rates on this class of loans are still moderate, they are more productive than those charged the Government, of course, and serve to bolster income of the banks. During recent months rates on short term business paper have shown a tendency to firm somewhat, with no signs of a recession until banking competition becomes more acute.

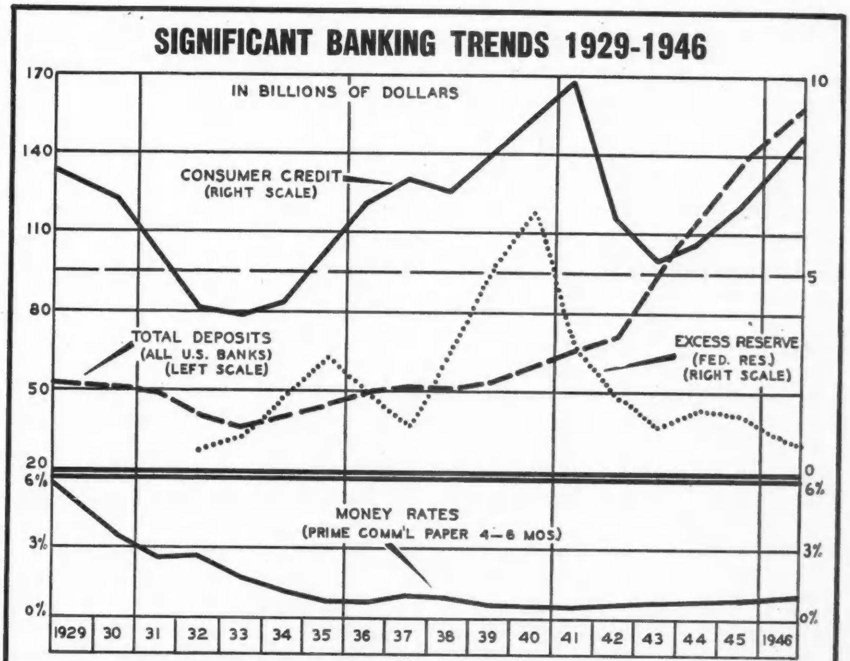
During the spring stock market boom last year, the banks were alert to take profits on securities to an impressive extent. Additions to income from this source for the national banks, during the first half of last year, came to nearly $73 million. The subsequent drop in market prices to the end of the year level checked opportunities for further profit taking and whether or not 1947 will produce new potentials is anyone's guess. But in one respect most of the banks start the new year optimistically, with bad debts reduced to a record low ebb and with their portfolios well adjusted to the numerous changes unfolding upon the industrial horizon.

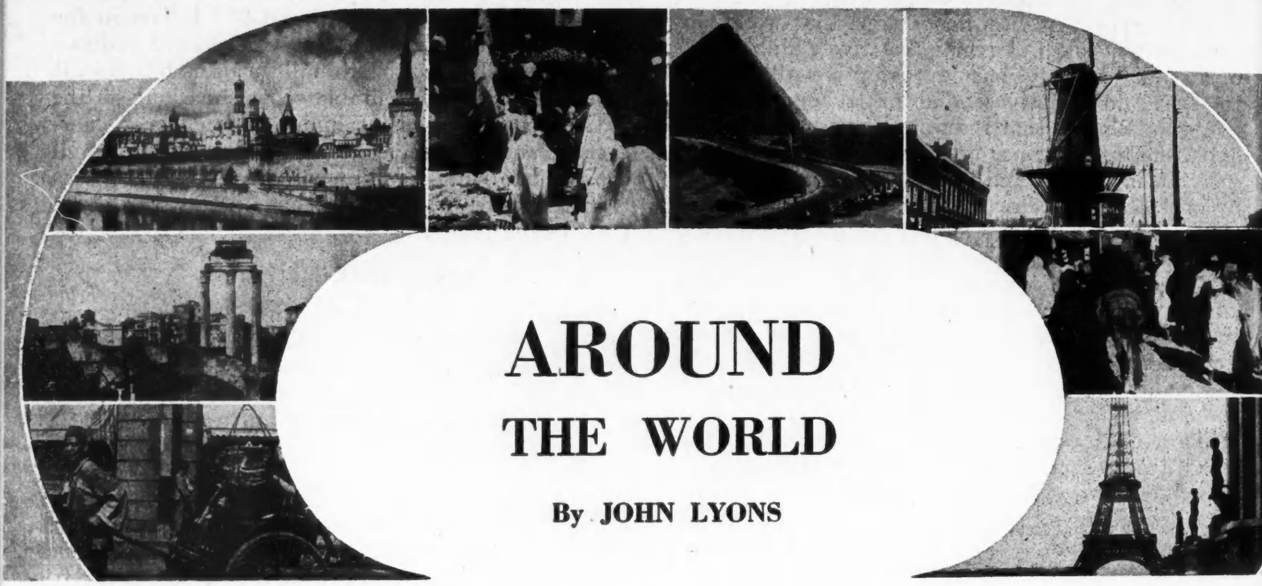
With an increasing flood of durables almost sure to appear upon the 1947 markets, the banks for the first time have made broad plans to expand their activities in the installment loan field. Indeed, it now appears as if four out of five banks throughout the country had already started to compete with large finance concerns which formerly had this kind of business mostly in their own grip. For years past, term loans secured by liens upon automobiles, household equipment of various kinds and similar items have proven exceptionally safe and profitable, although the banks generally fought shy of them. As matters now stand, consumer credit outstanding has reached a level near to $9 billion, with predictions that it may rise to around $15 billion in the medium term. Although the banks have reduced rates generally in order to build up this business, it is apt to prove a profitable venture as long as the national income remains high. In bad times, however, it would seem as if the banks were less well equipped to handle and dispose of repossessed items than the specialists in this field. On this score, time must be the judge.

Income From Mortgages

Income from mortgages during 1947 should tend to support earnings of the banks, as borrowing for construction or purchase of new homes will mount to huge proportions. As many of these loans will carry a Federal guaranty, and bear an average of 4% interest return, they offer an attractive medium for bank investment on a large scale. In cases where the mortgages are based wholly upon real estate without guarantees, the banks have been, and will continue to be exceptionally conservative in acceptance of appraisals. From this angle, accordingly, there is little danger such as has presented itself in the past during boom term periods. Reassurance in this respect also stems from policies broadly adopted in financing the immense expansion plans of industry. During 1946, industry as a whole spent about $13 billion for new plant and equipment, with indications that during the coming year this record may be broken. To quite an extent the banks throughout the nation will find a profitable opportunity to assist in the process.

During war years when bank deposits soared to astronomical heights and the Government became the chief factor in the banking field, it was entirely warrantable that the (*Please turn to page* 445)





AROUND THE WORLD

By JOHN LYONS

. . . **Argentina's Trade Campaign**

. . . **Canadian Dollar Balances**

. . . **Ireland's Economic Problems**

. . . **Why Italy's Premier Is Visiting Us**

THE AGGRESSIVE ECONOMIC POLICY of President Juan D. Peron toward Argentina's neighbors during the past few months is making the United States sit up and take notice. Where direct political pressure proved unsuccessful as in Bolivia and Paraguay, a skillful putting to use of food surpluses and gold and dollar credits is winning for Argentina the economic leadership in South America so effectively that our own trade and financial policies may be influenced by it in the future. Apparently Ambassador Messersmith is coming to Washington to report on some of these developments.

The system of trade treaties concluded by Argentina during the past six months was climaxed by a far-reaching pact with Chile on December 13, 1946. Chile could not have been treated more generously, considering its present economic difficulties. The pact aims at the eventual elimination of tariff barriers between the two countries and grants (1) free port facilities for Argentina in the Chilean port of Valparaiso, thereby fulfilling one of the wishes of President Peron that Argentina obtain a port on the Pacific. Chile is granted similar facilities in the inland Argentine city of Mendoza. (2) the Argentine Trade Promotion Institute is to underwrite a Chilean bond issue for A-Pesos 300 million (3¾ per cent coupon) to be used for improving and extending highway and railway facilities between the two countries. (3) Another A-Pesos 300 million loan (bearing 4 per cent interest) is to be given to the Argentine-Chilean Corporation to be organized by the Argentine Trade Promotion Institute and the Chilean Development Company to finance the construction of new industrial plants and the development of Chilean hydroelectric resources with an eye to selling electric power in Argentine frontier areas. Finally (4), the Argentine Central Bank is to open a revolving credit for two years for A-Pesos 100 million (interest 1½ per cent) to finance Chilean purchases of Argentine raw materials and foods.

Among other South American countries with which Argentina now has trade treaties are: Peru, Ecuador, Uruguay, and Brazil. The five-year treaty with Brazil, concluded last October, provides for the exchange of Argentine wheat, wool, and casein for Brazilian textiles, lumber, iron, and rubber tires. In the case of Peruvian and Ecuadorean treaties, Argentina promises to ship wheat and by-products as well as cattle and meat in exchange for Peruvian copper, petroleum, and rubber and for Ecuadorean petroleum, rubber, balsa wood, and cinchona. The recently signed treaty with Uruguay provides for the sale of Uruguayan electric current to assist Argentina in carrying out President Peron's five-year industrialization plan, scheduled to begin on January 1, 1947.

Only Paraguay and Argentina are missing among the neighbor countries with which no trade pacts have been concluded. However, a trade treaty with Paraguay is reported to be under negotiation; the little republic is already financially and economically so dependent upon her big neighbor that it is often thought of as one of Argentina's provinces. Economic ties between Argentina and Bolivia have been strengthened during the war. But at present the two countries are politically on the outs. There is a chance, however, that some of economic and financial agreement will eventually be reached, since Bolivia is in bad need of food and is facing economic

difficulties stemming from the war-to-peace transition.

There is no doubt that the economic policy of President Peron is producing results. Argentina has become an important creditor nation. With the Chilean loans and credits included, it will have authorized nearly 2 billion pesos worth of loans and commercial credits. Other debtors are France, Spain, Belgium and Czechoslovakia. A number of trade agreements are expected to be concluded in the near future with the missions of about 10 different nations now in Buenos Aires bidding for Argentine business.

Canada Faces the Problem of Restoring Three-Cornered Trade

Rumors that Canada will reverse its foreign exchange policy and revalue the Canadian dollar by 10 per cent, thereby restoring the wartime relation with the U. S. dollar, have been cropping up persistently. The heavy discount at which Canadian dollar notes are selling in places like Detroit or Buffalo and the weakness of Canadian securities in New York are usually interpreted as signs of the impending move. Among the motives most frequently mentioned are (one) the need to revive the Canadian gold mining industry, now faced with a sharp increase in production costs and lower gold prices, and (two) the need to arrest the decline in Canadian gold and dollar resources.

Canadian gold and dollar resources reached a peak of about $1,600 million in October 1945. Since then they declined to about $1,280 as of the end of July 1946; an additional decline has probably occurred since then. The main reason for it seems to be the unfavorable trade balance with the United States. During 1946, the excess of Canadian imports from the United States over Canadian exports to this country has probably aggregated about $500 million. This is nearly four times as large an import balance as Canada used to have with the United States during the 'Thirties.

What has been happening is simply this: the flow of funds which on balance was toward Canada during the war, largely because of our heavy purchase of raw matrials and foodstuffs, is beginning to assume a more normal pattern. Before the war, Canada's international payments with the United States usually ended in a deficit that used to be squared by transferring to us the pound sterling earned by the Dominion in its trade with Great Britain. Since the pound sterling is not yet freely convertible, Canada must draw for the time being on the wartime accumulated gold and dollar balances.

Reason for Trade Deficits

The size of Canada's trade deficit with the United States reflects the existence of a huge demand for durable and consumers' goods deferred during the war. But even if the rate of imports should subside when this deferred demand is satisfied, and the trade deficit is reduced, Canada cannot go on drawing forever on its accumulated résources. Sooner or later it must again be in a position to utilize the pound sterling derived from export surplus to Great Britain for the payment for import surpluses from the United States. Otherwise, as Mr. James A. MacKinnon, Canadian Minister of Trade and Commerce, recently stated, Canada will be forced to direct the flow of its trade and increase its purchases from the sterling area and Western Europe at the expense of the United States.

War-to-Peace Transition Brings Problems to Ireland

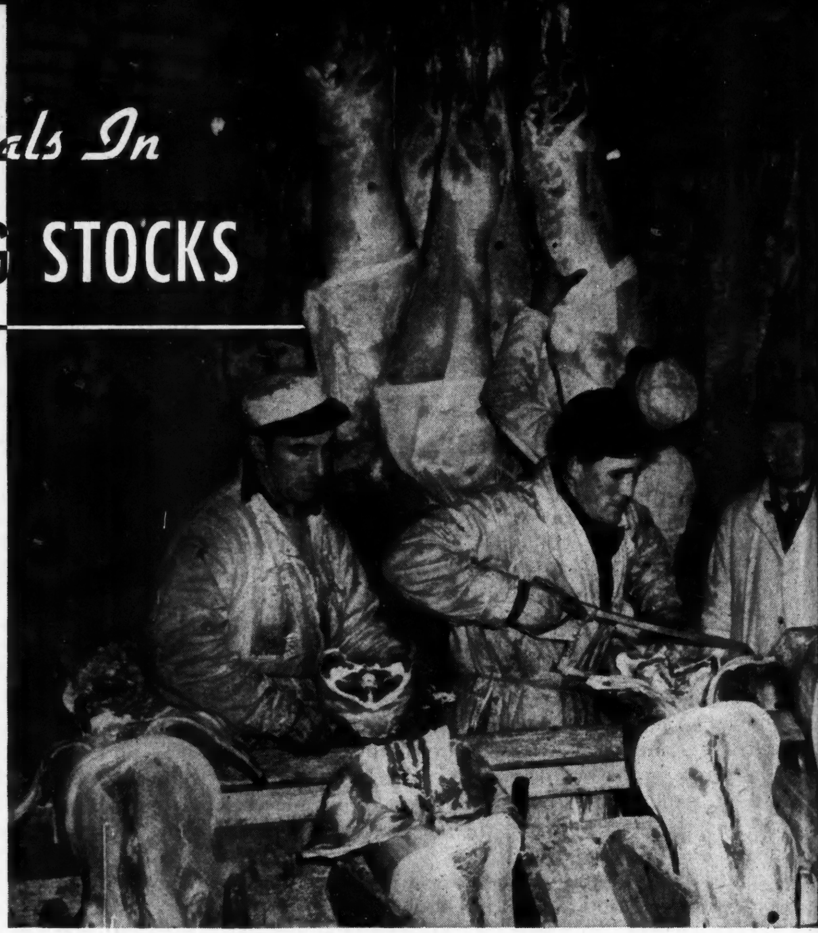
Probably no European country has retained the prewar atmosphere—the way of living and even thinking—to the extent that Ireland has. Except for the rationing of relatively few staples and for the fact that some imported foods and manufactured goods were unobtainable, visitors found wartime Ireland to be a country of relative plenty, with bread, meat, butter, and eggs available in nearly prewar quantities and at prices not much higher. Spurred by necessity, the Irish expanded and diversified their industries and in general became more self-sufficient.

Like the other neutral countries, Ireland made money during the war. To use the "Economist's" expression, it sold food at "ungenerous" prices; yet the British were eager to buy, because Ireland was near and there were no ships to spare. Moreover, thousands of Irish emigrants found profitable employment in factories and shipyards across the Irish Sea. Money poured into Ireland's coffers as never before: for the excess of exports, from emigrants abroad, from investments, from British tourists, and for services performed in connection with air transport. Sterling assets began to grow, and by the middle of 1946 they aggregated around £300 million, one-half of which was represented by the net sterling assets of Irish commercial banks. With that much money invested in Britain's economy, the Irish welcomed the conclusion of the Anglo-American Payment and Trade Agree- (*Please turn to page* 450)

Argentina finds in her vast cattle herds a valuable means of expanding her export trade.

Profit Potentials In MEAT PACKING STOCKS

By FRANK R. WALTERS



Hopes of more normal operating conditions during 1947 add confidence to patient holders of packing shares.

THE MEAT PACKING INDUSTRY in the past two or three years has encountered sharp vicissitudes due to war conditions, OPA regulations, black markets, unusual demands for its products, etc. Sales have reached record proportions in some cases, although the bigger companies have suffered from diversion of business to black market butchers and smaller packing establishments. Peak sales for Armour, Swift, Wilson and Cudahy occurred in the 1944 fiscal year (which uniformly end October 31). 1945 net sales declined some 10 or 15% and net income dropped proportionately.

Results for 1946 fiscal year are not yet available for all companies, but Swift & Company, the largest reported receipts of $1,308,000,000, only about a million dollars more than the previous year. While selling costs were higher, other expenses (including provision for inventory replacements) declined. Profits from operations were down over a million dollars, but about $5,000,000 savings in taxes resulted in an increase in net income of over $4,000,000, and share earnings increased from $2.08 to $2.77—the latter being about in line with the 1942-44 figures.

Swift's annual report states that the fiscal year was one of the most unusual periods in its 61-year history, with many ups and downs. Tonnage handled was about 11% less than the previous year, presumably representing losses to black market producers, so that stability of sales were accounted for by higher average prices. The company was able to retain almost exactly the same proportion of its sales as in the previous year—about 25%—payments to farmers and growers being supplemented by government subsidies. Since Swift is typical of the industry, it is obvious that the packers did not profiteer at the expense of the American public. While farm and market prices of steers, hogs, etc. advanced sharply during the year, the packing industry merely performed its usual function of middleman and processor. The lush profits went to the farmers, black marketeers, and the small unscrupulous abbatoirs.

Swift's report stated "we realize that some of these earnings (for 1946) resulted primarily from the rising scale of prices. Earnings that come from the up-swing are needed to cushion the shock when the price cycle starts downward. . . . Because our fiscal year closed less than two weeks after the removal of meat ceilings on October 15th, our inventories were still sub-normal on October 26th, the closing date. The inventory figure on our balance sheet therefore reflects low quantities resulting from involuntary liquidation during the price control period."

The inventory situation is an important factor in the profits of the packing companies. The Internal Revenue Code (the Treasury Department's accounting rules for calculating income taxes) provides that product inventories should be valued by the so-called "Lifo" (Last-in, First-out) method. There are also some complications due to the fact that the calender year (for which income taxes are figured) overlaps the fiscal year ending October 31st. *The careful student of packing company earnings must therefore study the interrelations of inventories with earnings and taxes.* As a result of Swift's replacements during the 1946 fiscal year at costs in excess of the basic "Lifo" prices, nearly $6,000,000 of prior year's taxes are now refundable and this was applied to reduce tax accruals for 1946 (being included in the balance sheet under long-term receivables).

It is obvious that, since in the nature of the packing business inventories are lower at the end of Octo-

ber than at the end of the calender or tax year, profits taken during the fiscal year may be reduced in the calendar year if it is necessary to restore depleted inventories at increased prices. Recognizing this situation Swift made a provision in its fiscal year statement to cover the estimated excess cost of inventory replacements to be made from October 26th to December 1931, over the "Lifo" value of such replacements. After reducing this estimate by the percentage of the Federal Income tax rate, it amounted to an approximate $10,000,000 applicable to 1946 current income (there was a smaller amount applicable to prior years which was charged to surplus). In other words, earnings for the fiscal year were marked down by some $10,000,000 or $1.33 a share in order to protect 1947 earnings. On the other hand as noted above, there was a tax saving due to inventory adjustments during the fiscal year of more than half this amount. Excluding these various adjustments, share earnings would probably have risen to a new high level, possibly in the neighborhood of $3.40 a share.

Excess Profits Taxes

Swift has not benefited during 1946 to any substantial amount by the ending of excess profits taxes. In the 1946 fiscal year the net Federal tax saving amounted to about $4,200,000, or some 70c a share. Other companies may obtain more substantial benefits. Armour in 1945 paid Federal excess profits taxes of $3,120,879 but also obtained tax savings due to refinancing and retroactive wage increases totaling $6,062,664. While it is difficult to forecast taxes, it would appear that about 55% of the combined amount would be saved in the 1946 fiscal year, less one quarter due to the overlapping of the 1945 tax year with the fiscal year. This would work out at about $3,800,000 or nearly $1 a share—an important factor in appraising the stock. In general, tax savings afforded the packing industry a good offset against higher operating costs and other difficulties resulting from the hectic conditions prevailing in 1946.

Normally, the big packers take a very small margin of profit. Swift in its year book states "No meat packing company can control livestock or meat prices. It can neither hold down the prices of live animals or push up the prices of meat. More than 4,000 competing meat packers and over 20,000 commercial slaughterers see to that." Also the perishable character of meat products forces the packers to turn over their inventories without much regard to profits.

By-Products a Factor

By-products are an important factor in earnings. High values for by-products were an important factor in sustaining packing earnings in 1946, and will doubtless also be a still more important factor in the outlook for 1947, since OPA ceilings no longer interfere with the production of soap and many other by-products. However, Federal controls still exist, and the final decision on how much edible and inedible fats and oils should be allocated to the United States as compared with foreign countries in 1947, is being debated by cabinet members.

The packing industry had its share of labor troubles in 1946, with the first widespread strike in a quarter of a century. However, the major stoppage lasted for only ten days so that closings were not an important factor affecting the industry's earning power, as was the case with the steel industry, railroads, etc.

Swift & Company's report for 1946 may not prove typical for the industry. Swift is not only the leader but one of the most consistent earners in the industry, and its officers (as pointed out above) make every effort to stabilize their earnings through various adjustments. Other companies may not make use of these "levelling devices" and increased earnings when published may yield startling results, particularly where there is substantial capital leverage.

As an extreme example, Hygrade Food Products recently reported for the year ending November 2, 1946, share earnings of $18.50 compared with $2.67 in the previous year (and a very poor prewar record of earnings). The stock is currently quoted around 50 on the N. Y. Curb up from the year's low of about 22. This company, a $13,000,000 producer specializing in the delicatessen brand of products, evidently "hit the jackpot" in 1946. As recently as 1940, with net sales of about $45,000,000, the company was "in the red" 36c a share. During the war sales skyrocketed to nearly $111,000,000 (details for 1946 are not yet available, but it seems probable that sales again advanced sharply).

While Armour's detailed report is not yet available, indications are that the company may earn around $3 a share for the common stock. The company recently amended its proposed recapitalization plan and indicated that the new preferred stock issues (to refund the old) may soon be publicly offered. The new plan, made possible by increased working capital obtained from "satisfactory earn-

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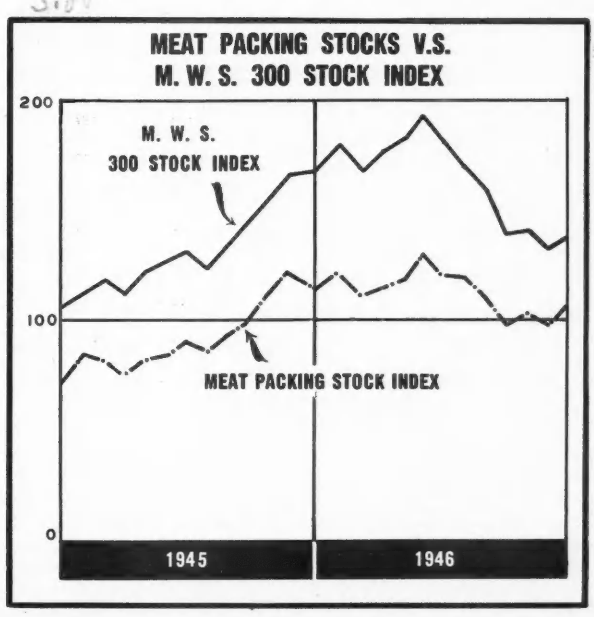


ings" is more favorable to the common stockholders than the original plan (which was approved in July but delayed due to market conditions). The new plan would increase the amount of new first preference stock, reduce the number of second preference shares (which are convertible into common stock) and eliminates the provision for issuing 1,355,240 shares of common stock (compared with 4,065,718 outstanding).

This meets the objections of certain stockholders who held that the original plan diluted the equity of the common shareholders. The new financing will permit retirement of the old preferred stock, with over $15,000,000 accrued dividends. The new first preference stock will be offered in exchange for the present $6 prior preferred and the much smaller issue of 7% preferred, and unexchanged stock will be publicly offered. The company had already completed a debt refunding program last summer, borrowing $50,000,000 at 2¾% from insurance companies and $20,000,000 from the bank at 2%. The completion of the present preferred stock refunding should permit restoration of dividends on the common stock (not paid since 1937). Armour is currently selling around 14 on the N.Y. Stock Exchange compared with the 1946 range of 18½-10⅛.

Wilson & Company, number three in the big four group of packers, has had a somewhat irregular record. While war-time earnings have shown considerable improvement over the prewar rate, no dividends were paid on the common stock during the years 1938-45. Early in 1946 the $6 preferred stock was refunded by a $4.25 issue, permitting the resumption of common dividends at the annual rate of 80c.

Cudahy Packing, remaining member of the Big Four, has just issued its annual report for the year ended November 2nd, showing $12.19 a share on the common stock compared with $4.12 in the previous year. Dollar sales were 1½ percent higher than in the previous year, but tonnage sales declined 12 percent. Indicating the low percentage of profits taken by the packers, Chairman E. A. Cudahy announced that the year's profits amounted to less than ¼c a lb. on livestock purchased and less than ½c a lb. on meat sold.

The company reported a strong current position with current assets of over $57,000,000 compared with current liabilities of less than $19,000,000 Funded debt is now only $14,000,000, the lowest figure in 25 years. Inventories were fairly high, the dollar amount being 47 percent over last year. The company plans an extensive program of plant modernization and technological and scientific research. Improved techniques have already reduced the time needed to process smoked and cured products to 7 days, with a resulting decline in inventory requirements and more rapid turnover.

The outlook for 1947 appears excellent for the meat packing industry. The more even flow of livestock to market and the virtual cessation of black market operations should improve dollar volume While retail meat prices have declined and may decline further, this may be more than offset by the advantages of free markets, without the OPA ceilings and regulations which tended to "squeeze" processers during the first half of 1946. Foreign demands for meat will continue, with exports limited only by available funds and exchange; foreign loans and the operation of the International Bank (together with the exchange stabilization fund) should help exports. The packers' labor costs may show some further rise, but it appears doubtful whether they will be troubled much by portal-to-portal litigation. While most of the (*Please turn to page* 450)

Earnings Summary of Leading Meat Packers

	Sales ($ Million) 1939	Sales ($ Million) 1945	Sales ($ Million) 1946	Net Per Share 1939	Net Per Share 1945	Net Per Share 1946	1946 Dividend	Recent Price	Dividend Yield	Price-Earnings Ratio
Armour & Co.	$715.3	$1,212.9	$1,183.5	def$.04	$1.41	$4.27	Nil	$14	....	3.3
Cudahy Packing Co.	202.2	344.9	349.9	.60	4.12	12.19	$2.20(a)	44	5.0%	3.6
Hygrade Food Products	42.6	110.9	154.9	.45	2.67	18.15	1.80	50	3.6	2.7
Morrell, John & Co.	98.7	158.2	126.8Ag9	5.53	2.58	N.A.	2.50	47	5.3	18.2(b)
Rath Packing	54.6	100.2	100.3	2.23	1.39	2.29	1.40	29	4.8	12.6
Swift & Co.	756.7	1,307.6	1,308.3	1.74	2.08	2.77	1.90	35	5.4	12.6
Swift, International	—Not Available—			2.47	1.96	1.86Je6	1.60	27	5.9	13.8(b)
United Stockyards	3.7	5.4	5.8	.13	.40	.41	.25	5½	4.5	13.4
Wilson & Co.	272.9	468.6	328.8Oc9	.64	1.64	N.A.	.80	14	5.7	8.5(b)

(a) Plus 10% stock. (b) Based on 1945 earnings. Je6—For 6 months ended June 30. Ag9 For 9 months ended August 31. Oc9 For 9 months ended October 31. N.A. Not Available. def deficit.

Note: Earnings of meat packers are derived partly from meat production, partly from by-products. While the annual reports of these companies do not usually provide break-downs of the source of earnings, it is believed that by-products played a more important-than-usual part in 1946 operations.

Outlook Now FOR FOREIGN BONDS

—And Where Servicing May Resume On Defaulted Issues

★

By J. C. CLIFFORD

DURING THE DECADE after World War I, flotations of foreign issues in the United States remained quite active, the annual totals ranging from $300,000,000 to $900,000,000. With the wild stock market of 1929, foreign financing dwindled to only about $130,000,000 but in 1930 the total recovered to over $600,000,000. This figure has not been equalled since. During the 1930's, the large number of defaults resulting from worldwide business depression made it difficult to attract American capital although a few small issues continued to appear from time to time. With the outbreak of World War II foreign issues slowed to a trickle. There were practically none in 1940-1941, but a $90,000,000 issue appeared in 1943, followed by another two years of negligible amounts. Beginning in March 1946, however, there were a series of flotations, and other issues will doubtless follow for countries whose credit ratings have survived the war, or for others which can resuscitate their standing.

During the war the only foreign financing done in this country was by Canada and Panama. During 1946 Australia sold three refunding bond issues, $20,000,000 Commonwealth 10-year 3¼s and $25,000,000 20-year 3½s, together with $8,500,000 Sydney County Council 10-year 3½s. An issue of $50,000,000 Netherlands bonds, proposed to be offered by a syndicate headed by Kuhn Loeb & Co., was postponed October 22, until market conditions should improve.

A substantial percentage of foreign bonds held in the United States defaulted during the 1930's due to economic conditions, declines in foreign exchange, etc., and this was followed during the recent war by other defaults by warring nations. At the end of 1945 over one-half the $4,863,000,000 publicly offered foreign dollar bonds outstanding had defaulted, according to a compilation prepared by Dean John T. Madden of New York University, Director of the Institute of International Finance. Eighty-two percent of Europeans, fifty-five percent of Latin American, fifty-six percent of Far Eastern and five percent of North American bonds were in default on interest payments. Thus the rate of interest received on all bonds averaged 2.32 percent compared with the average contractual rate of 5.14 percent.

However, many foreign countries used available funds to buy back bonds at depressed levels rather than make payments on interest and principal. For example, Germany and Japan, which of course have defaulted completely, repurchased 37 percent and 70 percent respectively, of the dollar issues they had sold in the United States. Of 38 countries with dollar bonds outstanding in the United States, some 21 countries had repatriated (bought and withdrawn) $779,000,000 bonds or nearly one-third of the amount outstanding. Bond issues of these countries represented about half of all the foreign dollar bond issues which had been sold here by 38 nations.

Only a few countries have had an unbroken record of payments—Australia, France, Finland, Guatemala, Ireland and Liberia. Canada, of course, has had an excellent record except for bonds issued by certain provinces and municipalities; and the same is true of the Argentine. The national Argentine government has maintained a strong financial condition and in 1946 retired before maturity $136,000,000 in national and provincial issues, ending that nation's debtor status in international finance.

From now on there will probably be a rapid decrease in nations which are on a completely defaulting basis. Recently the City of Carlsbad, Czechoslovakia (this country fared relatively well during the war despite German occupation, and is now along with Belgium one of the most rapidly reviving spots in the former war area) announced that it would resume debt service on about $500,000 of 8% bonds on which no interest had been paid since 1935; interest would be reduced to 4% and arrears at the new rate would be paid up by July 1, 1957 (the bonds would be extended from 1954 to 1966). There would also be a sinking fund, and the entire offer was guaranteed by the Czechoslovakian state. Copies of the offering are obtainable from the Central Hanover Bank & Trust Company. Following the announcement the bonds advanced some 26 points on the New York Stock Exchange. Two other Czech issues, the Republic 8s and the Prague 7½s, had re-

sumed interest payment of 6% last Fall and these issues gained about 11 and 15 points respectively on the announcements.

During 1946 the City of Antwerp and the Republic of El Salvador also announced resumption of debt service on adjusted bases. The Republic of Poland has also indicated its intention to discharge its obligations to holders of bonds of the national Government, the Province of Silesia, the City of Warsaw, the National Economic Bank and the Warsaw and Land Mortgage Bank.

The Republic of Chile has announced that $7,468,000 for servicing its foreign debt will be allotted for the year 1946 from receipts of the Autonomous Institute for the Amortization of the Public Debt. Half will be used to pay interest amounting to 1.415 percent. The interest is expected to be paid about February 1st and will apply to all external bonds of the Republic, the Mortgage Bank of Chile, the Chilean Consolidated Municipal Loan, two Santiago bond issues, etc. Part of this fund (which is obtained from taxes and profits on nitrates, copper, etc.) is devoted to retiring bonds.

Trend of Foreign Borrowing in the United States

Year	Capital Financing By Foreign Issuers (Millions of dollars)	Year	Capital Financing By Foreign Issuers (Millions of dollars)
1923	293.1	1935	116.0
1924	927.0	1936	126.5
1925	791.3	1937	222.3
1926	623.9	1938	65.0
1927	912.4	1939	67.5
1928	689.2	1940	......
1929	130.1	1941	4.0
1930	619.6	1942	......
1931	50.4	1943	90.0
1932	66.0	1944	......
1933	60.0	1945	......
1934	60.0	1946	53.5

The International Monetary Fund, established under the Bretton Woods agreement, together with the new World Bank, is expected to stabilize and improve foreign currencies. The major objective will be to improve world trade and stabilize commodity prices, rather than to improve the status of existing foreign bonds, but the two institutions, when fully functioning, can hardly help but exert a favorable effect on defaulted foreign bond issues. Moreover, future loans by the Bank itself may replace a considerable amount of future foreign financing in this country.

The Bank has already been set up and the Fund is expected to begin operations on March 1. Unfortunately the Bank has gotten off to rather a poor start due to delays in obtaining the cooperation of state banking authorities to make its future bond issues legal investments for institutions. Also the resignation of Eugene Meyer as President, following completion of the Bank's organization, and the apparent difficulties of refilling the post, have led to some doubts regarding the future success of the Bank. Most of the funds required, other than the funds contributed by member countries, must for the present be obtained in this country and Mr. Meyer had been hopeful that necessary state legislation would be forthcoming to permit insurance companies to invest in World Bank obligations.

The Bank has already received five applications for loans, four of which are for reconstruction of war damaged economies, while the fifth is for development projects. The Bank's debentures, when issued, will have three safety factors: the Bank's loans, the authority to call on all subscribers (particularly the United States) for the unpaid 80 percent balance of total subscriptions, and a reserve to be built up from a special commission of 1 to 1½ percent on all loans. Mr. Meyer has indicated his belief that the security thus built up would be more than adequate to cover any defaults or difficulties which might occur in connection with loans.

The International Monetary Fund begins operations within a short time and is expected to "freeze" at about present levels the currency exchange rates of 33 nations, but this does not mean that these rates will remain pegged indefinitely. Official quotations on some foreign paper currencies have been sharply questioned by directors of the Fund, particularly because of black market rates on French francs and some other currencies. Thus the franc was recently officially quoted at 119 to the dollar but was actually selling at 325 in the black market; and similarly the Czech Kruna actually was 140 to the dollar compared with the official 50. However, between now and March 1st roving "trouble shooters" will visit many countries to appraise their financial situation and confer with governmental authorities regarding the placing of realistic values on their currencies.

In at least one case however voluntary steps are already being taken. Premier Blum of France has ordered a 5% cut in all prices and this indication of a real fight against inflation has sharply increased the black market value of the franc as compared with the dollar. The Fund can of course bring to bear considerable pressure against foreign countries which do not accept its suggestion; if successful it will exert real international control over currencies. If the pending International Trade Conference, which will deal with tariffs and trade agreements, is also successful, further progress will be in store. However, local politics will always remain a handicap and there are still many political sore spots, as for exmaple in Brazil where former President Vargas is apparently attempting a "comeback."

What are the prospects for recovery in the status of foreign dollar bonds which are still in default? The field can be covered only briefly in this article. Some issues such as the old Imperial Russian bonds (in which some lively speculation has developed at times) are so completely enmeshed in foreign politics that they seem practically an out-and-out gamble: only an overthrow of the present communist govern-

ment in Russia would seem to offer any hope of a settlement of such bonds—which may be likened somewhat to our own defaulted confederate bonds, few (if any) of which have ever been paid.

Twelve other European countries are in complete default—Austria, Bulgaria, Danzig, Estonia, Germany, Greece, Hungary, Italy, Lithuania, Poland, Roumania and Yugoslavia. As already noted, Poland has already made a move toward resuming debt service. The Premier of Italy is now in this country seeking a $100,000,000 loan; whether this would permit some move for servicing dollar bonds seems rather questionable, though such a loan would definitely improve Italy's debtor status. Austria and Hungary have been involved in hopeless inflation which must be brought more fully under control before foreign bondholders can expect consideration. Bulgaria, Danzig, Estonia, Lithuania, Roumania and Yugoslavia are more or less in the Russian orbit of influence; but the action of Poland shows that the situation is not hopeless. Holders of German bonds however may have to wait a long time, for Germany is now dismembered economically and politically and it may take years to rebuild her shattered economy, which will be heavily drained by reparation payments.

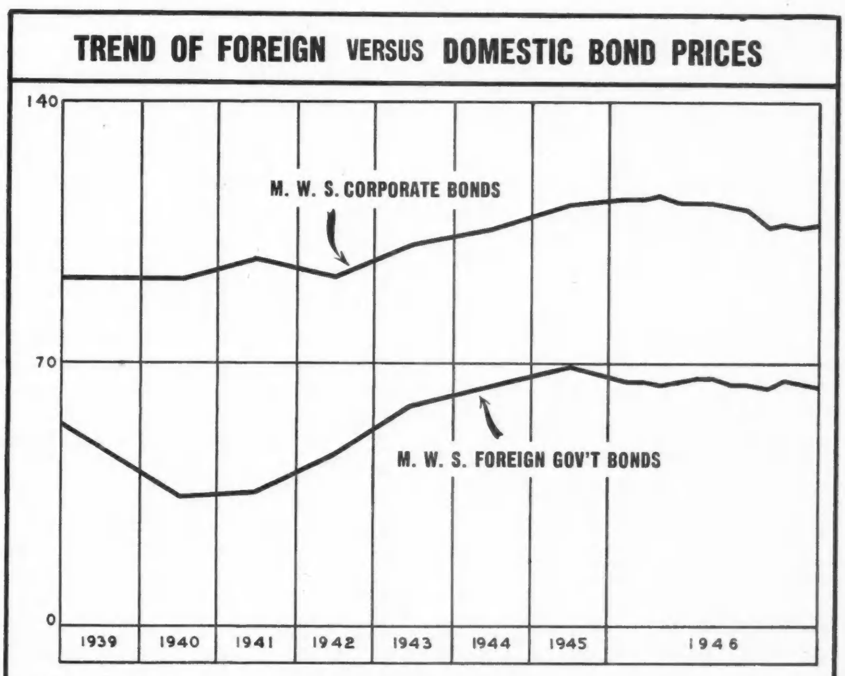
The situation with respect to Japan may not be quite as bad as that of Germany, since the country is being ably administered by General MacArthur and the Government is being solidly rebuilt on a democratic basis (though there is a communist fringe). If inflation can be brought under control and the political situation stabilized, Japan might surprise the world by the speed of her economic recovery, though the break-up of the old family "trusts" such as Mitsui requires rebuilding of business leadership. The situation in China remains serious, of course, until that country ends its long civil war and begins a real reconstruction program.

In Latin America only 40% of the $1,317,000 dollar bonds are paying their full service. As noted above, Argentine has retired nearly all its bonds. Guatemala and Cuba have not defaulted except for the latter's public works bonds not yet exchanged under the 1938 readjustment plan. The Dominican Republic has paid full service on its bonds accepting the readjustment plan and has paid interest on the remainder (but not the defaulted principal). Panama is paying on its national issues, except for those not accepting the 1941 adjustment offer. Uruguay is paying on her readjustment and conversion bonds but is still defaulting on national issues (and those of the city of Montevideo) which have not accepted debt offers. Haiti is paying interest but not sinking funds.

Brazil in 1943 announced a major plan to handle its debt, and about three quarters of the holders of national, state and municipal dollar bonds have accepted this plan and are receiving interest on the new basis; non-assenting bonds are still in default. In Colombia practically all issues remain in default except one national and one municipal issue. Ecuador and Mexico are old offenders and according to the Foreign Bondholders' Protective Council their defaults range from 17 to 32 years. In 1942 Mexico made an offer on one national and one guaranteed dollar issue, reducing principal about 80% and making service in pesos (with an option to receive dollars); a little over half of the holders have accepted this offer. Mexican state issues and the old expropriated railway bonds remain in complete default despite valiant efforts made from time to time by bondholders' groups as well as our own government to improve the situation. While some progress has been made in recent years in resuscitating the Mexican economy, much remains to be done, and the country has just entered a new Administration.

Bolivia and Peru are also chronic defaulters for nearly 15 years, despite the income these countries obtained during the war for their mineral products (tin, copper, silver, etc.). It has been expected for some time that Peru might do something about its bonds but nothing definite has yet occurred. Bolivia last year made a small payment on the 8s of 1947 (previous payments were in 1941 and 1931) but this was only a technicality.

Chile has been offering some small interest payments in the past 11 years for coupons in arrears but no general plan has (*Please turn to page* 458)



Things To Think About

COMING DOWN—Want to see an interesting hint on coming price trends? Then take a look at the commodity chart on page 444 of this issue, with particular reference to the two charts on the bottom of the page on "spot" and "futures" prices. These show that while the "spot" price index is holding fairly firm (despite the number of price reductions now in progress) the "futures" index is headed downward. "Spot" prices refer to the current price level, whereas "futures," as the name implies, are prices on options for *future delivery* of various basic commodities which are traded on regular exchanges, such as wheat, corn, cotton, metals, hides, lard and various others.

Any spread between present and futures prices is a signal that bears watching, and in this case, it indicates that traders are placing a lower valuation on future commodity values—in other words, the professionals expect prices to go lower in 1947. Since prices are one of the key problems of our times, this is a business indicator of more than ordinary importance right now. We would especially watch for any material widening of the discount of "futures" versus "spot" prices, and will comment on this from time to time.

REALTY TRENDS—Another interesting business barometer is the trend of the real estate market. Here the turn was called clearly and unmistakably as early as mid-1946, when residential dwellings in the top price brackets were no longer bought up as avidly as during the war-induced realty boom. As buyers' bids slackened, it became necessary to shade prices, and that has been the trend ever since. Most significantly, this is pretty much the case throughout most of the country.

Tip off to the future is contained in the recent statement by the National Association of Home Builders anticipating a "definite downward trend" in prices for "old homes," and a possible tightening of mortgage interest rates for new construction.

Meanwhile, prospects for the long-awaited building boom are much improved, with the program for 1,000,000 new low-cost houses figuring prominently in President Truman's economic message. As this gains momentum later in the year, the now acute realty squeeze may change very materially in some localities.

UTILITY SPENDING—One of the biggest customers for capital goods and related services in this country is the public utility industry. This year the utilities are going in for new construction and expansion in a handsome way—to the tune of about a billion dollars, which would be the largest such outlay for the industry in nearly twenty years.

To finance this program, the utilities will be entering the capital markets for between $500 and $700 million in new money, to be raised by stock and bond issues. Underlying it all is the basic fact—often overlooked—that despite the many problems that our public utilities have faced in the past, they are a remarkable growth industry, which has been making consistent new records year after year. Since they provide the power and fuel for a still expanding economy, their ultimate growth limit is nowhere in sight.

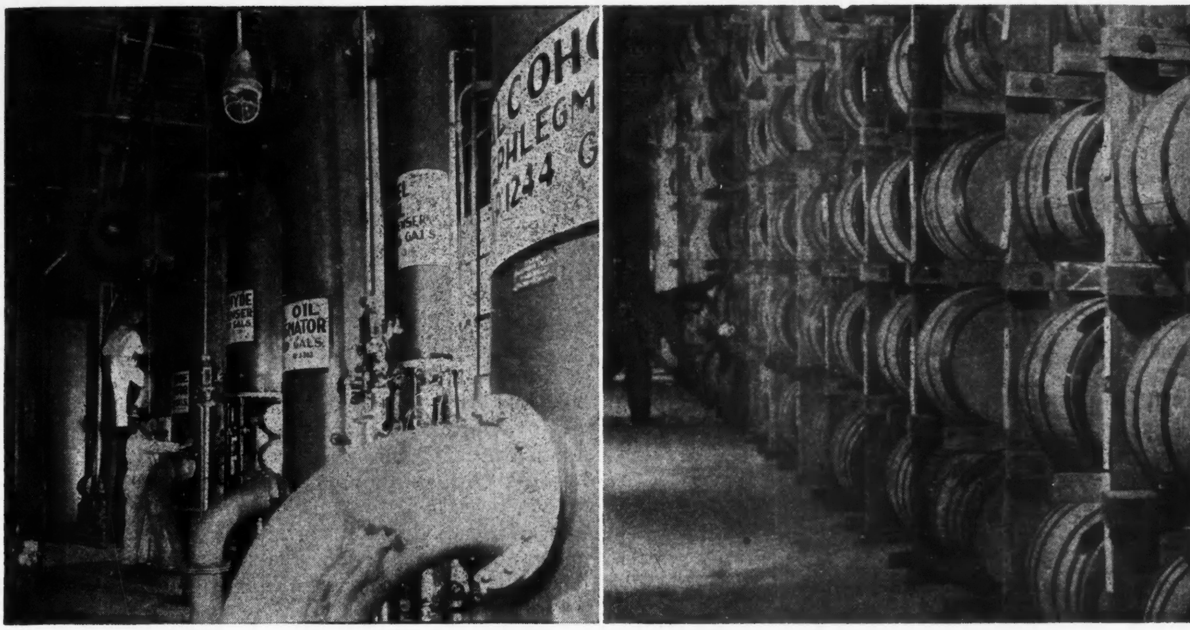
A program of this scope will provide quite a boost to industrial activity this year, especially in the heavy goods industries, to which a good part of that billion-dollar outlay will eventually flow. And a $500 million or $700 million quest for new capital will be a welcome tonic to our financial markets.

There are many signs and indications of improving business confidence on the long-range future, and the fact that the once politically-hounded utilities will spend more heavily than they have in twenty years looks like a vote of confidence on the basic industrial outlook.

PORTAL PAY PRESSURE—Although the current wave of "portal pay" claims against some of our leading corporations is well past the billion-dollar total, it's not as formidable as it may appear. There's good reason to believe that the whole thing will be settled on a much less drastic basis than the billion-dollar figures might imply. Best tip of all is the stock market itself, which has thus far taken the "portal" suits well in its stride, with hardly a quiver on that score.

By strange paradox, what makes the "portal" claims well-night unpayable is their very size and scope, and what this would mean to the nation as a whole. Here, for a change, is something that, if granted, would hurt everyone's interests directly and immediately. It would push some corporations to financial ruin, wipe out thousands of jobs, and, in the long run, hit the U. S. Treasury hardest of all, since the Government would be called upon to make retroactive tax adjustments for the companies involved.

What it all boils down to is that the labor captains have seized upon a fairly obscure decision (the Mt. Clemens Pottery (*Please turn to page 456*)



Following a long period when military alcohol production was transcendent, Schenley now rebuilds her stocks of whiskey for ageing. Record grain crops assure ample supplies.

Schenley Distillers

— AFTER 3 SPLITS

By PHILIP DOBBS

MEMORIES of New Year's celebrations are sufficiently vivid to remind one that a few headaches usually result from overindulgence. Somehow the old familiar "morning-after" feeling seems especially appropriate at this season in surveying prospects for major liquor distillers now that the great wartime expansion spree is over. For an industry that may be said to have "risen from the grave" only a few years ago the recent vigorous growth has been little short of miraculous. It is time now for a sobering analysis of current conditions and the longer-range outlook.

Several developments have occurred in recent months having a bearing on future operations of the industry. In general, these point to rising production and distribution costs, keener competition and narrower profit margins. It may be assumed, therefore, that the spectacular rise in earnings probably has passed its peak. A reversal in trend, if it should materialize, logically might find reflection in stock prices. Principal influences that have come to light as a result of recent industrial changes include:

(1) Indications of (at least a temporary) slackening in consumer demand for alcoholic beverages, pending price cuts incident to the forthcoming excise tax reduction due July 1.

(2) Necessity for substantial expenditures to finance production and storage of new inventories of aged liquor at prevailing higher costs.

(3) Possibility of revival of illegitimate competiton from bootleggers now that grain, sugar and other essential materials are becoming more generally available. High taxes encourage illegal distilling.

(4) Prospect of keener competition to reduce holdings of war blends, thus inviting larger promotional expenses and reinstatement of discounts to wholesalers and jobbers.

(5) Gradual lessening of the widespread escapist psychology and war tension that contributed to social drinking (especially among youngsters) since 1941.

(6) Likelihood of at least a moderate recession in consumer income in coming months together with an increase in buyers resistance to high prices for blends previously accepted only because of the war emergency.

In the light of worrisome problems such as these, it is little wonder that investors have shown anxiety over the 1947 outlook for distillers. *What of the prospects for the largest factor in the industry—Schenley Distillers Corporation?* At the 1946 high of 100 for the present common stock that has been split three times since 1944, the company's outstanding capitalization had a market appraisal of $360 million, compared with slightly less than $18 million at the 1941 highs for the preferred and common shares outstanding at the end of that year. *A boom of more than 1,000 per cent in less than five years borders on the sensational.* At least, a partial re-

Phenomenal Growth In Schenley Operations

	Net Sales* (000 omitted)	Net* Per Share	Dividend†
1934	$40,275	$2.31	Nil
1935	63,045	2.68	Nil
1936	82,220	2.47	$1.31
1937	83,899	1.76	1.05
1938	70,204	.85	.17½
1939	73,867	.88	Nil
1940	81,473	5.16	Nil
1941	121,992	1.82	.35
1942	152,192	1.61	.35
1943	223,183	2.32	.70
1944	386,635	4.03	.87½
1945	561,657	6.44	1.14
1946	643,867	13.58	1.85
Nov. 30, 1946 Quarter	....	5.38	......

* For fiscal year ended December 31, 1934-39, and August 31, 1940-1946. †For calendar year, and adjusted for capital changes.

tracement of the advance would not be surprising.

Reasons for expecting reduction in earnings have been outlined above. Schenley is a far different company than it was five years ago, however, and one would be warranted in feeling confident that normal earning power could be sustained comfortably above the pre-war average. Operations have been widely diversified, competitive position has been strengthened and new products have been developed in research laboratories that promise to add to income. The aggressive management that capitalized on abnormal war conditions in recent years may be expected to make the best of opportunities presented for retrenchment.

Aided by tax relief, Schenley reported net profit for the first quarter of the current fiscal year ending November 30 amounting to $19.4 million, or $5.38 a share on the 3.6 million shares now outstanding. This compared with $13.4 million, or $3.72 a share, for the corresponding period of 1945. Although the showing suggests potential earning power in excess of $20 a share annually, there seems little doubt but that the company may encounter difficulty in maintaining such a pace. In fact, a decline in shipments already has occurred, according to trade reports.

Adverse Factors

Two recent developments seem destined to retard earnings improvement and to dictate a cautious financial policy: (1) The Presidential order terminating hostilities as of December 31 and (2) regulations releasing additional grain for use of distillers.

The first event, automatically lowering the excise tax on whiskey six months hence from $9 to $6 a gallon, tends to discourage hoarding of supplies beyond needs for the intervening months. The second ruling permits adoption of plans for rebuilding aged liquor inventories, and naturally such a program involves substantial financial responsibilities.

Economic conditions that contributed to record-breaking sales and profits in recent years now have been reversed. Whereas in 1941, 1942 and 1943 retailers and consumers were scrambling for supplies in anticipation of suspension of production and a consequent scarcity of good quality whiskies. In those years alcoholic beverages were looked upon as an ideal hedge against inflation, and distillers themselves scoured the country for stocks which might be placed in storage. Now producers and distributors are anxious to dispose of holdings on which the tax has been paid before the lower rate becomes effective July 1, which will mean a saving of 60 cents a fifth in excise taxes alone.

Financial Steps

Now that restrictions on the use of grain have been removed, major distillers have begun rebuilding inventories to be aged. Schenley has arranged to finance part of this program through bank credits totaling $125 million. Of this amount, about $79 million is to mature in 1955 and slightly less than $46 million is due four years earlier. Schenley has not announced its production plans, but in the trade it is believed that more than 50 million gallons may be put into barrels in coming months to age for four years.

Costs have risen sharply in the last few years. Before the war, it is estimated that whiskey could be produced for between 25 and 35 cents a gallon. Now, according to insiders, costs have risen to between $1.25 and $1.40 a gallon, depending on labor conditions at individual distilleries and freight charges on supplies. Accordingly, production and storage of 50 million gallons or more in 1947 readily might involve expenditure of between $75 and $100 million. Schenley's latest statement showing inventories at $175.5 million suggests that whiskey supplies in storage probably exceeded 175 million gallons.

Schenley acquired substantial production facilities along with inventories in recent years and apparently is in position to build up stocks at a higher rate than most other competitors. There may be an advantage in enlarging supplies to be marketable in 1951, but such a program would impose even greater financial burdens and would involve risks of more favorable grain prices in 1948 and 1949. The fact that production facilities are about double normal consumption does not present a threat of overproduction at the moment, but it does suggest that keener competition may develop at some time in the future and that recent wide margins are unlikely to endure much longer.

Price Competition

Another factor that points to possible price competition is the war-induced popularity of blends of whiskey and neutral spirits. Before the first World War American taste favored blends, and trade figures indicate that 80 per cent or more of popular 1914 brands were blends. After the end of prohibition, however, there was a reversion against "catgut" whiskey and "bathtub" gins with the result that blends lost out to straight whiskeys, which accounted for more than 60 per cent of sales. The need for con-

servation of aged whiskey during the war, when all distillers turned to production of alcohol for war requirements, brought about a new reliance on blends of neutral spirits. In fact, for a time distillers turned to Cuba for essential cane spirits.

Basis for a downward readjustment in sales volume and profits may be better appreciated by a review of Schenley's extraordinary growth in the war years. Net income has expanded ten-fold since 1940 when war preparations in this country stimulated industrial activity. Below is a recapitulation of sales and earnings figures for fiscal years ended August 31 (with share earnings adjusted to presently outstanding stock):

	Sales	Net Inc.	Net Per Share
	(Millions)		
1940	$81.5	$4.4	$0.96
1941	122.0	7.5	1.82
1942	152.2	6.7	1.62
1943	223.2	9.2	2.32
1944	386.6	15.3	4.03
1945	561.7	24.0	6.43
1946	643.9	49.1	13.64

The manner in which the stock has responded to this phenomenal growth is familiar to all who have followed the market in liquor shares. The present stock at a 1946 high of 100 is equivalent to about 285 for the shares of 1944, when about 1.2 million were outstanding. This price compares with a high of 17⅝ in 1941. Adjusted for the three splits that have occurred, the stock has a range of 3½ and 6¼ for 1939, 2⅝ and 5⅛ for 1940, 3 and 6⅛ for 1941, 4½ and 7½ for 1942 and 6⅞ and 15⅝ for 1943. *On basis of present capitalization, therefore, it seems obvious that recent prices of the stock have been historically high.*

As mentioned previously, Schenley is a much different organization now than it was six or seven years ago. Management made careful preparations for the emergency that developed when the United States became involved in world hostilities. Schenley not only undertook accumulation of extensive whiskey inventories but made plans to enter the wine business in anticipation of cessation of imports from Europe. Further diversification developed with acquisition of the Blatz Brewery of Milwaukee in 1943.

Six years ago Cresta Blanca Wine Co., was purchased for about $300,000, while in 1942 Roma Wine Company and large inventories of Central Winery were purchased for more than $10 million. Expansion continued in recent years with purchases in Canada, in Puerto Rico and in Mexico. Importations from continental Europe have been resumed.

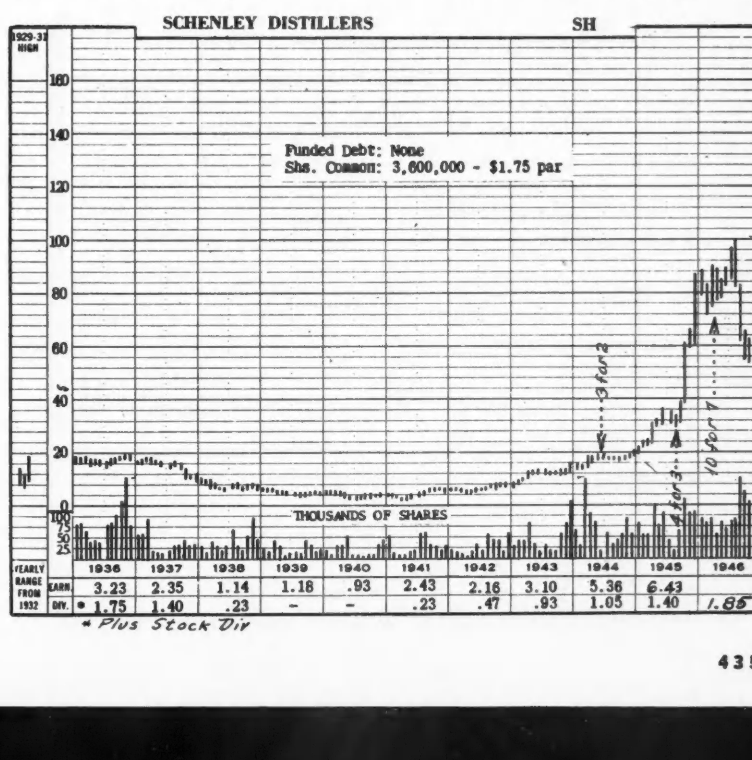
With the Blatz Brewery venture, the company became interested in production of penicillin, and output of this product in the last year was twelve times that of the preceding period. The company has successfully introduced to the pharmaceutical trade penicillin products in ointments and in tablet form. A start has been made on this drug for veterinary use for treatment of animal diseases. Construction of a plant for production of penicillin is contemplated in France in line with a program for development of foreign sales.

Byproduct Sales

Schenley has made progress in production and distribution of livestock food. The residue of distillers mash is rich in protein, and it has been learned that about seventeen pounds of such food may be recovered from fifty-six pounds of grain. Formerly the residue was dumped into nearby streams as waste. These byproducts are in urgent demand at present as a rich source of nutriments necessary for high production of milk and other dairy products.

Research is continuing on an enlarged scale. Production of streptomycin has begun on a pilot plant scale. Another laboratory is working on a process for recovery of glutamic acid from by-products. Research also is progressing on conversion of byproducts to foods for human consumption.

Because of this exceptional growth, Schenley may be expected to maintain sales volume at levels well above pre-war experience. Although management problems have been intensified, indications point to benefits from diversification and earnings may be expected to reflect the projected increase in sales. Moreover, customer relations have been strengthened by reason of the fact that Schenley's extensive inventories enabled the company to supply larger quotas for taverns and retail stores in the war period when competitors' stocks were (*Please turn to page* 450)



Opportunities...

for Income and Price Appreciation

IN BONDS And PREFERRED STOCKS

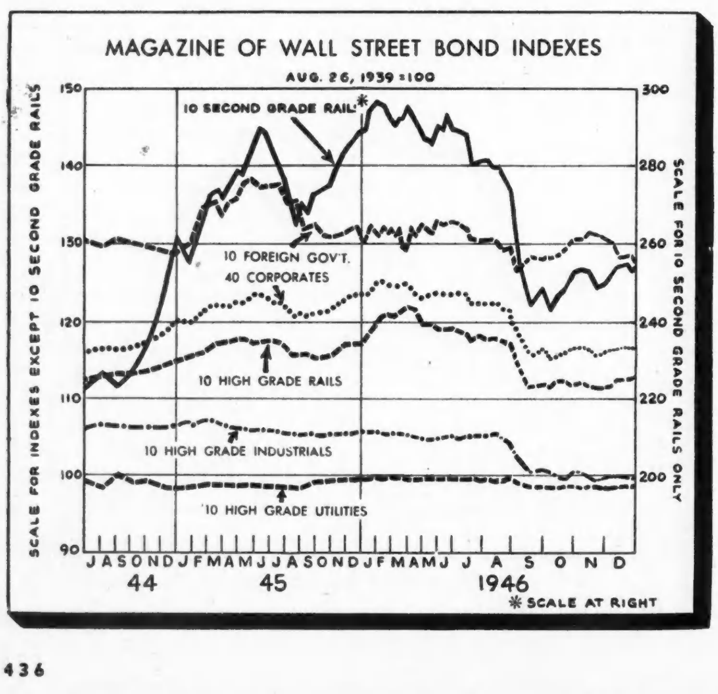
By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET's Index of Bond Prices showed the following changes for the period indicated:

	On Dec. 28	On Jan. 4	
40 Domestic Corporates	116.8	116.8	. . .
10 High Grade Rails	112.6	112.8	+ .2
10 Second Grade Rails	253.4	254.7	+1.3
10 High Grade Utilities	98.6	98.6	. . .
10 High Grade Industrials	99.8	99.5	— .3
10 Foreign Governments	128.5	127.8	— .7

Negligible price changes in all groups of bonds, aside perhaps in the case of Second Grade Rails, were characteristic of the markets during the two weeks under review. Even the 1.3 point gain by the secondary rails could not be considered significant in view of the customary volatile action ordinarily demonstrated by this speculative division. Prices for this group are still a full point below the level established on December 21, attesting to continued uncertainties as to the exent of earnings improvements likely to be achieved by individual roads during the coming year, despite the recent boost in freight rates.

As a matter of fact, the bond market has exhibited a high degree of sluggishness for several weeks past, volume on one recent day falling to the lowest point since June 1946. As a rather spectacular and highly encouraging exception to the general rule, however, trading in American Telephone and Telegraph Co. convertible debentures of 1961 captured the center of attraction. A single block of $6.8 million sold at 117¾ on one day recently, after which prices at the end of the week gradually hardened to 118¾.



The ease with which A. T. & T. has been able to liquidate on the open market the approximate $13 million bonds of this issue not taken by shareholders, attests to the strong confidence in the company's financing plans shared by a host of individual subscribers as well as by large institutional investors. The big block of bonds mentioned above established an all time record on the New York Stock Exchange as for size in a single transaction involving bonds in this classification.

Until the air clears during the time ahead as to many of the pending problems remaining to be solved throughout the economy, and the effect of political activities by the new Congress boils down, it continues to be our opinion that widespread purchases of bonds and preferred stocks by individual investors had better be deferred for a while yet. That is to say, while purchases at current price levels may proves satisfactory over a long term, we

think that by the use of wise selectivity better buying opportunities may yet appear. Hence we continue to advocate a cautious "wait and see" policy on the part of our readers.

When it comes to steps taken by an individual investor to buy high grade bonds during 1947, the competition created by the banks and insurance companies creates a situation where the small buyer is put at a disadvantage in hoping for an attractive yield. 47 of the large insurance concerns in 1946 bought $6.5 billion securities for their portfolios, with industrial bonds accounting for $1.47 billion of the total. A repetition of buying on this scale during the current year would absorb a substantial portion of high grade industrial interest bearing obligations likely to come upon the market in 1946. And the banks, too, are hungry for prime investments yielding better than their tremendous holdings of Governments.

As an indication of prospective new offerings of State and municipal bonds in sight, it is reported that during 1946 voters authorized a total of more than $1.9 billion issues of this kind, mostly in the form of Veteran aids of some kind. This compares with a previous high annual total of $783 million way back in 1928.

Suggestions for Current Investment Funds

Bonds:	Recent Price	Call Price	Current Yield
Amer. & For. Pwr. Deb. 5's, 2030	$108	$107½	4.6%
Boston & Albany R.R. Term. Imp. 4¼'s, '78	96	105	4.4
Missouri, Kan. & Tex. Ry. 1st 4's, '90	91	N.C.	4.4
N. Pacific Ref. & Imp. 5's, C, 2047	101	105*	4.9
Pittsburgh & W. Va. 1st 4½'s, 1958-60	92	102	4.9
Southern Pacific Deb. 4½'s, 1981	99	110	4.5
Texas & Pacific Ry. Gen. & Ref. 3⅞, '85	103	205½	3.8
Preferred Stocks:			
Assoc. Dry Goods $7 2nd Pfd.	$130	N.C.	5.4%
Baldwin Locomotive $2.10 Pfd.	41	$40	5.1
Barker Bros. 4½% ($50 Par) Pfd.	53	55	4.2
Curtis Publishing $4 Prior Pfd.	68	75	5.9
General Cigar 7% Cum. Pfd.	160	N.C.	4.3
Goodyear Tire & Rub. $5 Cum. Cv. Pfd.	106	105	4.7
Lipton (Thos.) 6% Cum. Pfd. (Par $25)	31	30	4.8
Pacific G. & E. 5½% Cum. 1st Pfd. (Par $25)	36	N.C.	3.8
Stokley-Van Camp $1 Prior Pfd.	21	21	4.7
Union Pacific 4% Non-Cum. Pfd.	107	N.C.	3.7
Virginian Rwy. 6% Cum. Pfd. (Par $25)	39	N.C.	3.9

N.C.—Not Callable. *Not prior to July 1, 1952.

CUDAHY PACKING COMPANY 4½% cumulative preferred stock is worthy of consideration by investors seeking an attractive yield along with strong fundamentals. At recent prices just under par, the senior stock of this well established meat packer has considerable in its favor. Although prior to the war years, the earnings record was spotty, a complete overhauling of the capital structure since then, plus able management, has created quite a new and better picture. As a result, debts and interest charges have been radically pruned, and at the same time operations have demonstrated marked improvement all along the line. Outstanding ahead of the preferred are $14 million 3% first mortgage bonds due 1964, which at their peak sold as high as 103½. The 100,000 shares of preferred outstanding replaced former issues of 6% and 7% preferred about a year and a half ago. For the last six years net earnings applicable to preferred dividends on the present preferred issue have averaged more than three times the necessary amount. For the fiscal year ended November 2, 1946, net earnings showed a surprising gain in view of the generally unsettled conditions in the industry during the year, equalling $67.21 per share on this senior stock. This after setting aside $3.5 million as a special reserve against possible inventory declines. Working capital stands at $38.4 million, the current ratio is better than 3 to 1 and the company is out of debt to its banks.

MISSOURI, KANSAS AND TEXAS RAILWAY first gold 4s due 1990, currently selling around 89 to yield 4.5% enjoy considerable investment attraction combined with no little speculative appeal. While now priced some 12 points below their 1946 high of 101, however, it must be remembered that at one time last year their price declined to around 80. Such volatility attests to sensitiveness to unfavorable interim earnings. Gross revenues of this road during 11 months ended November 30 dropped sharply to a level of $55.3 million against $78.3 in the same period of 1945. But this did not prevent net operating income from holding at $3.9 million or several times interest charges on these senior liens. Approximately $30 million of the bonds are outstanding. Now that rates have been advanced M.K.&T. should produce a better showing as to operating income during the current year, for the road serves a section of the country where traffic in farm products, petroleum, cotton and coal is likely to be substantial.

RADIO CORPORATION OF AMERICA 3½% cumulative first preferred stock at recent price around 77 yields 4½%, rather attractive for an issue of this class. 900,324 shares with no par value are outstanding and the company has no bonded debt, although it recently borrowed $10 million from banks for a one year term. For many years past earnings have consistently exceeded dividend requirements for this senior stock by a wide margin and the record has been marked by unusual stability. For nine months ended September 30, 1946, after estimated adjustments for tax recoveries to cover reconversion expenses, net applicable to the first preferred was reported as $9.13 per share, compared with $9.11 for the relative 1945 period. As the dominant factor in the field of radio development, RCA has gained such a strong position in every branch of this growth industry that confidence in its well sustained earning power is well warranted.

GOODYEAR TIRE & RUBBER COMPANY 5% cumulatve preferred at re- *(Please turn to page 456)*

FOR

PROFIT AND INCOME

For the Record

A popular market letter observes that the back record favors some net rise in stock prices for the month of January by odds of about four to three. This column is not impressed. As bull markets usually last at least twice as long as bear markets, a long term record of market action would, in theory, favor advance in any month of the year by two to one. Moreover, a long term record of average performance in any one month naturally averages-out the all-important difference between bull and bear markets. There are only two periods of the year in which the seasonal bias in the averages has been consistent enough, in bull and bear markets, to warrant being taken into account in speculative tactics—with due recognition that even these are neither infallible nor precise in their timing. One is the "year-end rise," the other is "the summer rise." The former did not amount to much this year, and is over. (If the market is rising when you read this, it will be due to something else; not seasonal tendencies.) The "summer rise" has usually begun in either June or July. It has "miss-fired" more often than the year-end rise. Usually, but not always, one of two things works in favor of it. (1) in bull-market years, the general optimism; (2) in bear-market years, the technical springboard set up by sharp decline in late winter and/or spring.

Bear-Market Years

Whatever may happen further along, 1947 has started as a bear-market year. Therefore, the record of seasonal "habits"—with the exception of the two periods above referred to—may be of some significance only if deduced from former bear-market years. *Taking bear markets of the last thirty years, there has been a decline in the second half of January in the great majority of cases; while February, on an average, has seen little change either way. Look out for March-April. In one, or both, the period has nearly always been a "stinker" in bear markets.* Right now, so far as further intermediate recovery is concerned, the burden of proof is definitely on the market. *On the other hand, the result of any extensive selling test within the next two to four months will bear close watching by those with reserves awaiting opportune investment. The averages should go to new lows within that period, if they are going there. If they don't, it can then be taken as reasonably probable that the bear market ended last October.*

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1946	1945
American Distilling Co.	Year Sept. 30	$11.70	$3.47
Armour and Co.	53 wks. Nov. 2	4.27	1.41
Champion Paper & Fibre	28 wks. Nov. 10	2.22	.76
Collins and Aikman	9 mos. Nov. 30	5.82	3.71
Dayton Rubber Mfg.	Year Oct. 31	4.40	.75
Grand Union	9 mos. Nov. 30	5.21	2.42
Magnavox	9 mos. Nov. 30	2.94	.78
Norwalk Tire & Rubber	Year Sept. 30	2.25	.95
Rice-Stix Dry Goods	Year Nov. 30	10.39	3.80
Spalding (A. G.) and Bros.	Year Oct. 31	2.82	1.84

Dividend Outlook

In 1946 there were 519 dividends increased, against 137 in 1945; 822 initial payments, against 366 last year; 1,384 extras, against 1,013. It was a good dividend year, especially during the fourth quarter. However, as we had expected, a number of marginal companies, which had

found the going easy when war contracts were flooding the economy, did not do so well in the transition to peace. Thus, there were 144 dividend omissions in 1946, against only 10 in 1945. The chances are that aggregate 1947 dividend payments will differ little from those of 1946. They could be a little lower or a little higher depending on how managements "feel" about things next November-December, for it is the year-end "extra" or "final" payments that make the biggest difference in the annual totals. If organized labor has had enough sense beaten into its head to avoid major strikes, the year will be much better than 1946 for automobiles, building and most other durable-goods lines, implying higher dividends. The total will be somewhat lower in soft-goods lines, although the bigger, listed companies therein should readily be able to maintain present rates, which are generally conservative.

Auto Parts Stocks

On strict investment principles, the best automobile accessory stock is not as good as the best automobile stock, for the reason that the auto manufacturer is in the driver's seat, able to shop around and drive hard bargains. But this reasoning is somewhat less pertinent than it used to be, both because the biggest auto makers have come around to a live-and-let-live philosophy for their suppliers and because the parts makers have become increasingly diversified and hence less dependent on any single big original equipment contract. *So far as the next couple of years are concerned, it is this column's opinion that the best-situated parts stocks have greater speculative attraction than General Motors or Chrysler on comparative earnings potentials. The two outstanding accessory stocks are, by a wide margin, Electric Auto-Lite and Borg-Warner.*

The Reasons Why

As a supplier to the motor industry, Electric Auto-Lite holds a strong trade position, but the exceptional plus-factor in its favor is the large replacement business, covering a wide range of parts—mainly relating to ignition systems—and carried on through the largest and most effective dealer set-up in the field, which is backed up by aggressive national advertising. Old cars will continue to be "nursed along" more than before the war, both because of the shortage of new cars and the high prices thereof. This is advantageous to Auto-Lite. So is active new car production, for that means good original-equipment business, plus future replacement business when these cars age and need repair parts. If the company is not again bogged down by strikes, as during the first half of last year, the writer would expect 1947 earnings around $9 a share, and a substantial rise in the present $3 dividend rate. Around 59 at this writing, the stock appears likely to meet much above-average support during the rest of the bear market, and should be among the leaders in the next major rise.

Borg-Warner

Borg-Warner's strong point is the most solid trade position in the industry with respect to original equipment business, plus exceptional diversification in household appliances, plus a substantial replacement-parts business, although the latter contributes a smaller percentage of profits than in the case of Auto-Lite. Earnings may rise to around $5 a share this year, against estimated $3 for 1946. There are 2,461,000 shares, against only 1,196,000 for Auto-Lite. The stock usually is a somewhat slower-mover than Auto-Lite, and sells at higher multiples of earnings. It is now around 45, with a secure $1.60 dividend. Of the two, the Auto-Lite management may raise dividends most promptly as earnings justify it.

Central Foundry

As of this writing, Central Foundry has risen over 20% since this column called attention to its speculative possibilities in the issue of December 21. We doubt that it would keep going in the event of further general-market unsettlement and hence suggest that those interested in this special-situation speculation seek to buy it on recessions. On the other hand, if the potentialities in the company's patented low-cost pipe-making machine are what they appear to be, there would seem to be no valid reason why the stock should break the bear-market low of 8⅛ to date.

Lehigh Portland Cement

Reflecting strong improvement in earnings as building got under way, Lehigh Portland Cement raised its quarterly dividend rate from 25 cents a share to 37½ last August and then jumped it to 62½ cents in November. This is an annual rate of $2.50, the highest in the company's history. (It paid that much per share once before, in 1929, but considerably fewer shares were then outstanding). There will be a further rise in profits this year, perhaps to around $4 a share. The policy has been to pay generous dividends promptly when earnings permitted, otherwise not—which is fair enough. Hence a

(*Continued on page* 445)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1946	1945
Air Associates, Inc.	Year Sept. 30	$ .76	$1.67
Chain Belt	Year Oct. 31	1.46	1.75
Chicago & Northwestern Rwy.	11 mos. Nov. 30	1.71	11.45
Hayes Mfg.	Year Sept. 30	.24	.50
Hoe (R.) & Co. A	Year Sept. 30	4.65	5.90
Pacific Tel. & Tel.	Year Dec. 31	6.07	6.77
Reliance Electric & Eng'g.	Year Oct. 31	1.65	2.02
Southern Rwy.	11 mos. Nov. 30	3.16	10.72
Virginian Rwy.	11 mos. Nov. 30	1.03	2.45
Washington Gas Light	12 mos. Nov. 30	1.45	2.01

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

New Process Co.

Please send me information as to income, dividends, financial condition and future outlook of New Process Co.

B.H., Trenton, N. J.

New Process Co. was founded in 1912. It is a mail order business specializing in wearing apparel, blankets and related lines. Headquarters and warehouses are located at Warren, Pa.

Capitalization consists of 1498 shares of 7% cumulative preferred ($100. par) and 79,824 shares of common stock (no par) outstanding. Net sales for year ended December 31, 1945 amounted to $6,492,001. and net income was $336,014., equal to $4.07 a common share. This compares with $3.15 in 1944 and $3.80 in 1943. Balance sheet as of December 31, 1945 showed total current assets of $1,920,464.; total current liabilities $545,802., leaving net working capital of $1,374,662. Equity per common share $26.01. Dividend payments in 1945 amounted to $3.00 a share and in 1946 increased very sharply to $11.25 a common share. While no earnings report for 1946 has been issued as yet, sales and profits are expected to show a sharp increase over 1945 results. While outlook for 1947 continues favorable, increased competition in the mail order field will probably narrow profit margins. The stock is listed on the New York Curb Exchange and recent market price of 95 is the highest level that this issue has reached in many years. The lowest in 1946 was 54⅜; the market range for 1936-45 has been high 48, low 18.

Bond Stores

Please furnish report on Bond Stores.

T. V., Milwaukee, Wisc.

Bond stores has an aggressive, capable management. Sales have expanded greatly the past year as evidenced by the 53.5% increase for the eleven months to November 30th, 1946. Sales totaled $65,697,220, the largest in company's history.

Business was originally established in 1915. Company manufactures and retails through its own 59 stores men's clothing, haberdashery, men's furnishings, hats and shoes.

When early in World War II, civilian sales of men's clothing faced sharp curtailment due to sharp expansion of military forces, company entered the women's wear field by manufacturing and selling women's mantailored clothes. Recently, other articles of ladies' wear have been added in some stores.

Factories are located in Rochester, N. Y., Buffalo, N. Y. and New Brunswick, N. J. Construction of an additional plant in Rochester is expected to about double production. Company also plans to open new stores and expand present ones. Balance sheet as of December 31st, 1945, showed total current assets of $31,463,889; total current liabilities, $9,307,021; net working capital $22,156,868.

Capitalization: Subsidiary mortgage, outstanding $3,517,979. Entire preferred stock issue was redeemed July 1st, 1946. Common stock was split 2-for-1 on June 26th, 1945. Increase of common shares authorized to 2,500,000 shares and there are 1,518,801 shares outstanding.

Earnings for 1946 are expected to show a very substantial increase over the $1.85 a share reported in 1945. Dividends including extra totaled $2.00 per share for 1946.

Intensified competition in 1947 will probably narrow profit margins, but increased production and aggressive merchandising through additional sales outlets, enhances long term outlook.

International Railways of Central America

Can you tell me a few things about International Railways of Central America? I am interested to know:

1. *Why preferred dividends were not paid fully during the past five years, except in 1946, even though earnings were several times dividend requirements?*
2. *At what rate will the arrears be paid off if earnings continue to be similar to those for 1945 and 1946?*
3. *Does the common stock possess much leverage and do you consider it an attractive appreciation issue?*
4. *Is air-freight likely to make inroads on this company's traffic?*
5. *Would you know what caused the common to drop 1½ points to a new 1946 low on Nov. 30th?*

Your advice will be appreciated.

R. L., Albany, N. Y.

The mileage of combined system of International Railways

(*Please turn to page* 462)

The BUSINESS ANALYST

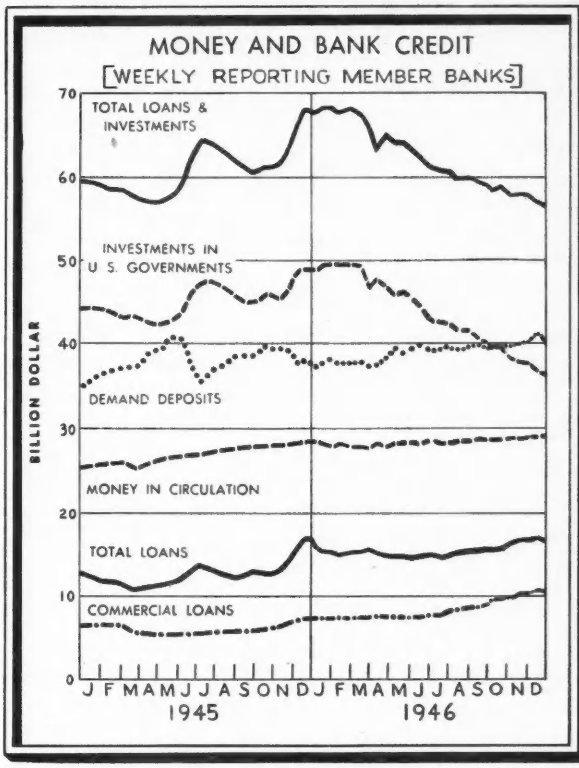
SUMMARY

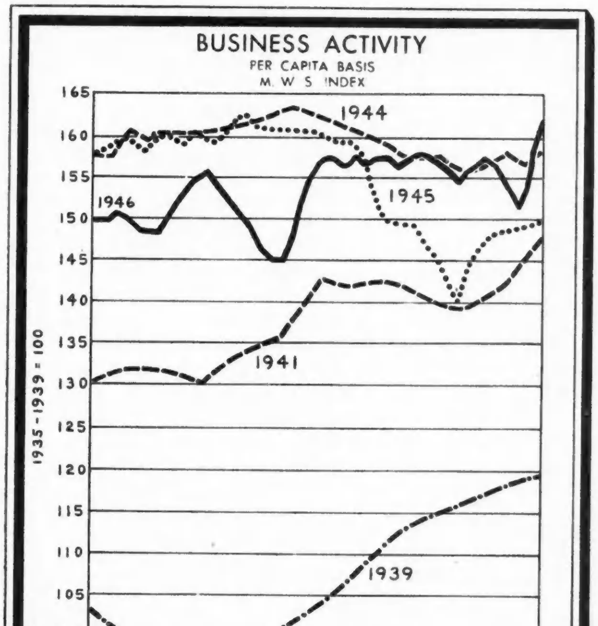
MONEY AND CREDIT—Commercial paper rates continue to harden. Reduction in Government deficit spending cuts savings by individuals, but savings bonds sales topped cash-ins last year by $1 billion. Slash in luxury taxes and prospective heavy Government outlay for farm subsidies dim outlook for promised reduction in individual income taxes.

TRADE—Department Store Sales in week ended Dec. 28 show phenomenal increase over last year. Consumer expenditures and retail store sales last year at new all-time high. Retailers' inventories in October were only 104% of sales; campared with 146% in 1939; while ratio of inventories to sales for wholesalers in October was only 40%, against 65% in 1939.

INDUSTRY—The Nation's physical volume of business activity at the close of 1946 was at the highest level in history. Gloomy Cassandras who look for business recession in 1947 are virtually unanimous in predicting record prosperity for heavy goods industries. Such forecasts overlook the historic fact that there never has been a business depression in which the heavy industries were not hit hardest.

COMMODITIES—Price changes were mixed since our last issue, with the averages slightly lower. Non-farm products prices continue upward; but will also recede before the year ends.





In the closing week of 1946 this publication's index of **Business Activity**, which measures the National Gross Product on a quantity rather than dollar basis, rose to a new all-time high. This was in spite of the **Freight Car Shortage**, for which the O. D. T. sees no relief until 1948, owing to inadequate allotments of steel for new equipment building. We are headed for even greater prosperity this year, granted freedom from paralyzing strikes. As to the latter, it is perhaps an encouraging omen that labor's demands upon the **Meat Packing** industry are being compromised this time without work stoppages.

* * *

Cash **Dividends** paid in October were 7.6% more liberal than in the like month of 1945. For the three-months' period ended Oct. 31, the increase was 12.6% over the like interval in 1945, with trade disbursements up 43%; while only two groups paid smaller dividends—automobiles and communications, both strike-ridden industries, with decreases of 23% and 4%, respectively.

* * *

Department Store Sales in the week ended Dec. 28 showed a phenomenal increase over the like week of 1945. At New York City they were up 77%. A major portion of the extraordinary spurt, however, was accounted for by the circumstance that there was one

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (H) $b	Dec. 31	0.43	0.25	0.88	0.43
Cumulative from Mid-1940	Dec. 31	347.6	347.1	323.2	14.3
FEDERAL GROSS DEBT—$b	Dec. 31	259.1	258.9	278.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Dec. 31	40.0	40.5	37.1	24.3
Currency in Circulation	Dec. 31	29.0	29.2	28.5	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Dec. 31	7.12	7.07	7.23	3.92
100 Other Cities—$b	Dec. 31	9.36	9.28	8.22	5.57
INCOME PAYMENTS—$b (cd)	Oct.	14.76	14.32	13.53	8.11
Salaries & Wages (cd)	Oct.	9.24	9.14	8.67	5.56
Interest & Dividends (cd)	Oct.	0.90	1.45	0.87	0.55
Farm Marketing Income (ag)	Oct.	3.44	2.01	2.37	1.21
Includ'g Govt. Payments (ag)	Oct.	3.45	3.02	2.47	1.28
CIVILIAN EMPLOYMENT (cb) m	Nov.	57.0	57.0	51.4	52.6
Agricultural Employment (cb)	Nov.	7.9	8.6	8.4	8.9
Employees, Manufacturing (lb)	Nov.	15.0	14.8	13.1	13.8
Employees, Government (lb)	Nov.	5.3	5.4	5.6	4.6
UNEMPLOYMENT (cb) m	Nov.	1.9	1.9	1.7	3.4
FACTORY EMPLOYMENT (lb4)	Oct.	147	147	128	147
Durable Goods	Oct.	170	169	143	175
Non-Durable Goods	Oct.	129	129	116	123
FACTORY PAYROLLS (lb4)	Oct.	286	284	223	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Sept.	40.3	40.5	41.4	40.3
Hourly Wage (cents)	Sept.	112.6	111.1	98.7	78.1
Weekly Wage ($)	Sept.	45.41	44.98	40.87	31.79
PRICES—Wholesale (lb2)	Dec. 28	139.6	139.8	107.0	92.2
Retail (cdlb)	Oct.	167.0	164.3	141.8	116.2
COST OF LIVING (lb3)	Nov.	152	149	129	110.2
Food	Nov.	188	180	140	113.1
Clothing	Nov.	169	167	149	113.8
Rent	Nov.	109	109	108	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Oct.	8.77	8.20	7.12	4.72
Durable Goods	Oct.	1.87	1.72	1.14	1.14
Non-Durable Goods	Oct.	6.90	6.48	5.98	3.58
Dep't Store Sales (mrb)	Oct.	0.82	0.76	0.61	0.40
Retail Sales Credit, End Mo. (rb2)	Oct.	3.86	3.68	2.42	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Oct.	229	228	180	181
Durable Goods	Oct.	246	254	160	221
Non-Durable Goods	Oct.	219	213	130	157
Shipments (cd2)—Total	Oct.	248	242	204	184
Durable Goods	Oct.	265	261	203	223
Non-Durable Goods	Oct.	236	228	205	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Oct.	34.0	32.4	27.4	26.7
Manufacturers'	Oct.	19.6	18.9	16.5	15.2
Wholesalers'	Oct.	5.3	5.0	4.1	4.3
Retailers'	Oct.	9.1	8.5	6.8	7.2
Dept. Store Stocks (mrb)	Oct.	2.1	2.0	1.5	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 441)

more shopping day before Christmas than in the corresponding week of 1945.

* * *

Consumer Expenditures for goods and services last year reached a new all-time high of $127 billion. Of this total, $96 billion was spent at retail stores—also a new all-time high, and 25% above 1945. Store sales of non-durable goods amounted to $77 billion, 20% above 1945. Sales of durable goods, at $19 billion, were 66% ahead of 1945.

* * *

Expenditures for **Clothing** were $17.5 billion —an average of $125 per person, compared with $115 in 1945 and $65 in 1941. Clothing prices last year, however, averaged about 25% higher than in 1945 and 50% above 1941.

* * *

Owing to smaller deficit spending by the Federal Government, **Liquid Savings** by individuals during the third quarter, according to the SEC, totaled only $4.3 billion—$1 billion less than in the like period last year. But even these reduced savings in three months were more than for any full pre-war year. Net Liquid Savings consist of increased holdings of cash, bank deposits, securities, insurance, and investments in savings and loan associations; less increases in mortgage and other indebtedness.

* * *

The Commerce Department has just completed a tabulation of total **Business Sales,** expressed in dollars per month, from 1940 to Oct., 1946. Comparing inventories with sales it develops that, for the month of October, total business **Inventories** last year were only 98% of sales, compared with 102% in 1945, 118% in 1941 and 129% in 1939.

* * *

Manufacturers' Inventories last Oct. were only 157% of sales; compared with 161% in 1945, 161% in 1941 and 178% in 1939. **Wholesalers' Inventories** were only 40% of sales last October; compared with 44% in 1945, 55% in 1941 and 65% in 1939. **Retailers' Inventories** were 104% of sales last October; against 95% in 1945, 144% in 1941 and 146% in 1939. These ratios afford striking evidence that inventories at the present time, though inflated in price, are at extremely conservative levels in actual quantity.

* * *

The Labor Bureau reports that $3¼ billion were spent on construction of new **Housing** during the first eleven months of 1946—largest amount for any like period since the 1920s. During the 11-months' interval, 340,700 new permanent dwellings were completed and 366,400 more were under construction.

* * *

The Commerce Department predicts that **Construction** work in 1947 will reach a record

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Dec. 28	161.6	158.6	149.8	141.8
(M. W. S.)—I—np	Dec. 28	176.8	173.6	162.3	146.5
INDUSTRIAL PROD. (rb)—I—np	Nov.	182	181	168	174
Mining	Nov.	137	144	138	133
Durable Goods, Mfr.	Nov.	214	213	191	215
Non-Durable Goods, Mfr.	Nov.	171	168	158	141
CARLOADINGS—t—Total	Dec. 28	628	836	506	833
Manufactures & Miscellaneous	Dec. 28	287	373	235	379
Mdse. L. C. L.	Dec. 28	98	123	88	156
Grain	Dec. 28	45	53	35	43
ELEC. POWER Output (Kw.H.) m	Dec. 28	4,442	4,940	3,759	3,267
SOFT COAL, Prod. (st) m	Dec. 28	9.1	13.1	7.2	10.8
Cumulative from Jan. 1	Dec. 28	524	515	576	446
Stocks, End Mo.	Oct.	55.1	52.4	48.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Dec. 28	4.7	4.7	4.5	4.1
Gasoline Stocks	Dec. 28	93	90	96	88
Fuel Oil Stocks	Dec. 28	53	54	42	94
Heating Oil Stocks	Dec. 28	59	61	36	55
LUMBER, Prod. (bd. ft.) m	Dec. 28	240	379	167	632
Stocks, End. Mo. (bd. ft.) b	Oct.	4.4	4.1	3.8	12.6
STEEL INGOT PROD. (st.) m	Dec.	5.94	6.38	6.09	6.96
Cumulative from Jan. 1	Dec.	66.6	60.6	79.7	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	Dec. 31	62	34	43	94
Cumulative from Jan. 1	Dec. 31	5,262	5,200	2,370	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 28	100	144	97	165
U.S. Newsprint Consumption (st)t	Nov.	411	412	333	352
Do., Stocks, End Mo. (mpt)(st)t	Nov.	343	348	418	523
Wood Pulp Stocks, End Mo. (st)M	Oct.	71	72	65	98
Whiskey Production (tax gals.)m	Oct.	9.3	8.5	9.6	11.8
Do., Domestic Sales	Oct.	6.0	4.9	6.7	8.1

PRESENT POSITION AND OUTLOOK

total of $22 billion, of which housing will account for about 40%, or $8.8 billion, providing 1,000,000 new houses and apartments. Associated General Contractors of America, Inc., representing 4,000 building firms, places the 1947 total at $20 billion—including $15 billion in new construction and the rest in long delayed repair and maintenance work.

* * *

The Government's program to provide **Homes for Veterans** has failed largely because the great majority of G. I.'s can not afford to buy a $10,000 house. Mortgage retirement, taxes, insurance, maintenance and heating come to about $96 a month. This calls for a weekly income of around $90; but a Commerce Department Survey discloses that the average incomes of Veterans willing to buy a home is only $56 a week.

* * *

A slash of $1.5 billion in luxury taxes beginning with the next fiscal year and prospective heavy Government outlay on farm products subsidies dim the outlook for large cuts in individual **Income Taxes** in the near future. The Senate will oppose such.

* * *

Forecasts of a **Business Recession** (?) in 1947, along with record prosperity for the heavy goods industries, are self contradictory. We couldn't have both.

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Streeet, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

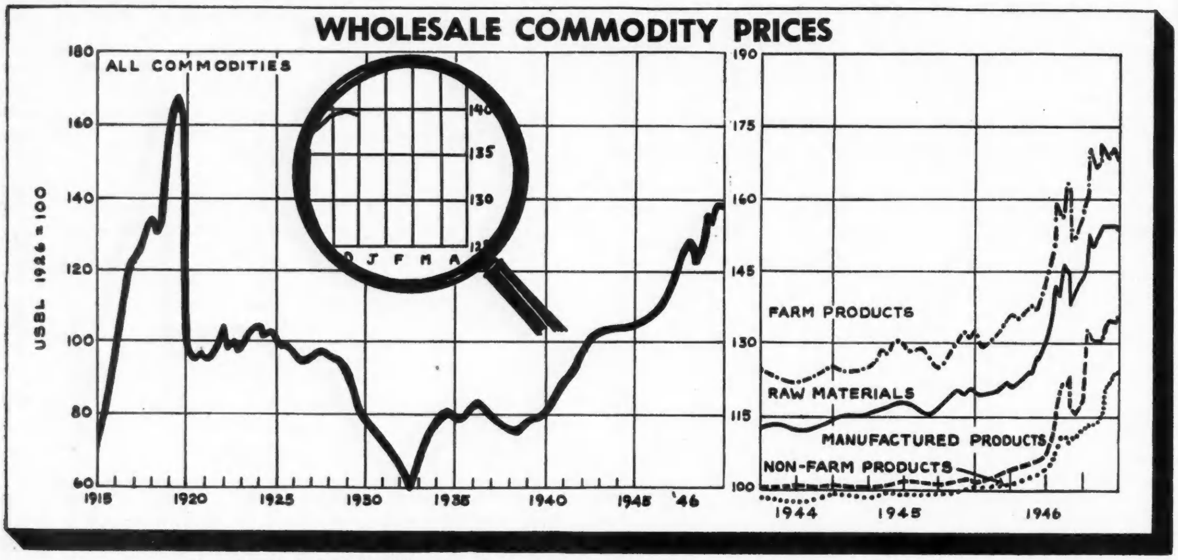
No. of Issues (1925 Close—100)	1946 Indexes High	Low	Dec. 28	Dec. 31
300 COMBINED AVERAGE	191.7	129.8	138.5	138.6
4 Agricultural Implements	265.7	149.5	162.0	161.8
11 Aircraft (1927 Cl.—100)	284.4	153.7	159.8	157.1
6 Air Lines (1934 Cl.—100)	1208.6	558.6	586.2	576.9
5 Amusement	218.6	143.3	145.0	143.3a
15 Automobile Accessories	336.2	181.0	203.7	202.9
11 Automobiles	62.2	33.5	35.3	35.3
3 Baking (1926 Cl.—100)	26.0	20.2	22.9	23.1
3 Business Machines	360.3	255.1	285.0	286.7
2 Bus Lines (1926 Cl.—100)	229.9	155.6	162.5	161.5
4 Chemicals	290.2	214.1	233.3	234.8
2 Coal Mining	32.4	17.7	17.7a	17.9
4 Communication	99.7	51.6	55.6	54.6
13 Construction	85.1	56.1	62.9	64.3
7 Containers	462.6	315.5	340.2	339.6
8 Copper & Brass	141.8	95.1	108.5	110.2
2 Dairy Products	81.5	64.6	68.3	69.6
5 Department Stores	132.9	71.2	76.7	76.4
5 Drugs & Toilet Articles	277.4	194.8	220.9	221.0
2 Finance Companies	313.9	203.6	240.5	247.9
7 Food Brands	236.4	177.2	185.6	185.4
2 Food Stores	100.3	69.7	73.3	72.9
3 Furniture	125.8	77.5	86.7	87.6
3 Gold Mining	1346.1	763.6	778.5	763.6a

(Nov. 14, 1936, Cl.—100)	High	Low	Dec. 28	Dec. 31
100 HIGH PRICED STOCKS	112.55	80.46	86.47	86.70
100 LOW PRICED STOCKS	247.97	156.49	163.20	162.87
6 Investment Trusts	84.1	55.1	57.6	58.8
3 Liquor (1927 Cl.—100)	1479.8	858.3	949.9	933.6
8 Machinery	206.4	130.5	147.6	148.0
3 Mail Order	206.3	116.8	122.0	121.8
3 Meat Packing	132.7	92.4	103.5	102.9
13 Metals, non-Ferrous	299.7	176.3	188.8	187.9
3 Paper	44.0	32.7	39.3	39.6
23 Petroleum	227.0	169.9	182.0	182.6
20 Public Utilities	165.5	111.5	127.0	128.8
5 Radio (1927 Cl.—100)	42.0	19.2	19.6	19.2c
8 Railroad Equipment	110.6	63.4	71.1	71.0
22 Railroads	40.8	22.5	25.1	24.2
3 Realty	56.7	25.6	27.5	25.6a
2 Shipbuilding	178.8	102.1	106.2	107.0
3 Soft Drinks	647.0	446.0	471.7	482.7
12 Steel & Iron	149.3	106.9	111.5	112.0
3 Sugar	88.9	62.1	68.6	68.2
2 Sulphur	295.3	236.9	244.4	243.1
3 Textiles	189.7	126.7	135.3	132.8
3 Tires & Rubber	51.9	35.3	36.8	37.3
5 Tobacco	99.6	76.6	83.8	84.2
2 Variety Stores	399.3	299.4	314.0	310.2
18 Unclass. (1945 Cl.—100)	116.1	83.1	87.2	87.4

New LOW since: a—1945; c—1943.

Trend of Commodities

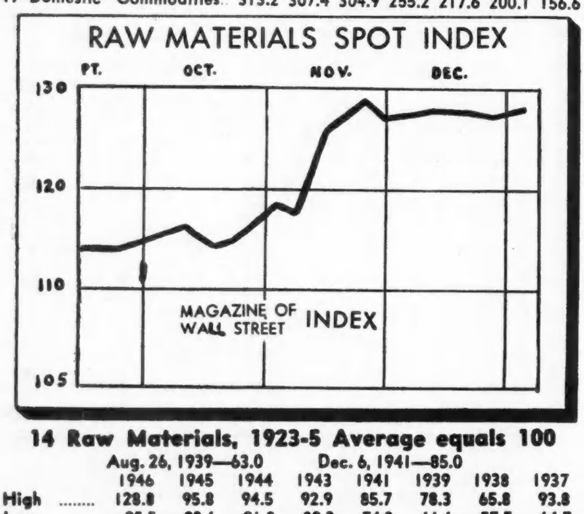
The closing fortnight of 1946 witnessed mild strengthening in commodity futures, accompanied by slightly lower prices in the spot markets. As measured by the Labor Bureau's comprehensive index of wholesale prices, farm products advanced 23% during the second half of 1946, 28% on the year, 72% since Pearl Harbor and 97% since the outbreak of war in Europe. In other words, nearly a quarter of the 7½ years' advance took place during the six months following decontrol of prices. Unless Congress decides otherwise, the timing of President Truman's proclamation terminating the period of hostilities obligates the Government to support farm products prices at 90% of parity (92.5% for cotton) until 1949. Had he waited two days, support would have been obligatory until 1950. Officials are worrying about the expense of this program. It could cost the Government billions a year, unless unpopular crop control regulations are resurrected. Even then, it's already too late to cut this year's promised bumper crops without burning wheat and killing little pigs again, which would be bad politics. The B. A. E. thinks that wheat, corn, cotton, peanuts and eggs—and possibly dried beans, flue-cured and burley tobacco—will require support sometime in 1947. To put a floor under the price of wheat alone might cost the Government around $500 million. Props under last year's potato crop cost $80 million for spuds that were just left to rot in the ground. To help move this year's record wheat crop the I. C. C. has just ordered the railroads to give priority to shipments of export wheat.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODIES
Spot Market Prices — August 1939, equal 100

	Date Dec. 31	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	303.7	300.1	297.5	243.2	196.3	187.1	156.9
11 Import Commodities	289.3	289.0	286.4	225.7	171.9	168.9	157.5
17 Domestic Commodities..	313.2	307.4	304.9	255.2	217.6	200.1	156.6

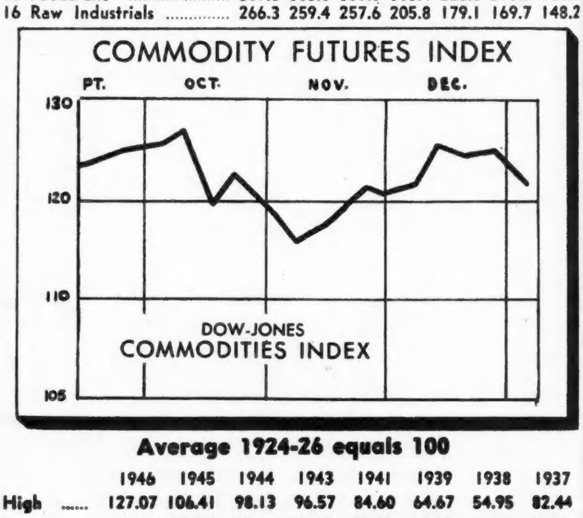
	Date Dec. 31	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	303.7	316.2	310.9	292.7	256.5	233.7	163.9
12 Foodstuffs	361.5	363.8	359.8	303.4	226.8	213.2	169.2
16 Raw Industrials	266.3	259.4	257.6	205.8	179.1	169.7	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1946	1945	1944	1943	1941	1939	1938	1937
High	128.8	95.8	94.5	92.9	85.7	78.3	65.8	93.8
Low	95.5	93.6	91.8	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1946	1945	1944	1943	1941	1939	1938	1937
High	127.07	106.41	98.13	96.57	84.60	64.67	54.95	82.44
Low	104.21	93.90	92.44	88.45	55.45	46.59	45.03	52.03

For Profit and Income

(*Continued from page 439*)

dividend of as much as $3 seems possible. On a yield basis (5.8% on the present $2.50 dividend rate) the stock, around 43, is one of the most reasonably priced of the better-grade building equities.

American Gas & Electric

In its simplification plan, Electric Bond & Share will dispose of its large common stock holding (over 800,000 shares) of American Gas & Electric, by offering rights to subscribe to it to E. B. & S. stockholders. To date of the offering has yet to be decided. It will be on a basis of one share of American Gas & Electric for each 16 shares of E. B. & S. held, at a price $7 a share under the market for American Gas at the offering time. The offering involves over 18% of total outstanding stock of American Gas & Electric. In view of the speculative character and low price of Electric Bond & Share, it is open to question how well the offering will be absorbed. In any event, it will be a weight on the market for A. G. & E., and may tend to depress it. The latter is technically a holding company but can easily comply with SEC integration requirements and will retain the heart of its electric system, stretching from Virginia to Michigan. The stock is on the equivalent of a $2.35 dividend ($2 regular plus 35-cent year-end extra) — the highest in the company's history. It probably will pay the same amount in 1947. The long term dividend record has been excellent. At 42, as we write this, the stock's current yield is 5.6%. Here is a situation which conservative investors, interested in good and secure income return, should watch. *If the stock sells off on the Electric Bond & Share offering, it might become available on an outstandingly attractive yield basis.*

Convertible Preferreds

Usually, this writer is not keen about convertible preferred stocks. Those of best quality offer small yields. If the yield looks good, the issue is speculative. If the market goes down, the latter also slide; and it is onlly partial consolation that such a stock will go off less than the common stock into which it is convertible. Given a market rise, the convertible preferred will go up less than the common. Despite all this, there are times when well-chosen convertibles may be a worthwhile hedge-investment; and this might be one of those times. We have in mind that the bear market could possibly be over for stocks in some industries. Specifically, the Atlantic Refining, Kimberly-Clark and Houdaille - Hershey convertible preferreds—at yields of 3.7%, 3.8% and 4.5%, respectively—look interesting. So does the more speculative Colorado Fuel & Iron convertible, on a 5.6% yield basis.

Earnings Prospects for Bank Shares

(*Continued from page 423*)

ratio of capital assets to deposits should shrink below normal standards. In order to build up capital funds, however, most banks were highly conservative in their dividend distributions, although as the war drew near its close, many strong institutions began to be more liberal with their shareholders. Henceforth it is quite possible that this trend may continue at a faster pace. To illustrate the potentials in this direction, the national banks during the first half of 1946 distributed only 27½% of their earnings for the period, retaining 72½% to bolster surplus and reserves. Despite this practice by which capital assets have been steadily enlarged during the past five years, prices for bank shares generally have not increased to a point where the yield has become unattractive compared with those on prime industrial stocks. With a return to normal conditions, it would seem reasonable to suppose that banks still aiming to pile up capital assets would tend to sell more capital stock rather than to rely exclusively upon accumulated

earnings. In the past such procedure has often brought valuable subscription rights to the fore, while to make the offerings more attractive dividend policies have usually been liberalized. *There seem to be good grounds for expecting higher dividend rates upon bank shares as time passes, with a good chance that the trend may begin to be expressive during* 1947. Be that as it may, investors of even moderate means are displaying sound judgment when they carry carefully selected bank shares for a portion of their portfolios. Many strong banks can be found which during the most depressed periods have never failed to continue their dividend payments, in some instances for many decades past.

On an appended table we have selected a number of banks meriting the further study of investors. While lack of space precludes individual analysis of these by us, the relative figures shown may serve as a stepping stone for investigation by our readers.

Keeping Abreast of Industrial and Company News

General optimism continues to color the outlook for the business world as the New Year begins, but with opinion still divided as to whether volume and profits will quite hold the gains registered during the year just closed. Too many readjustments remain to be made in the realms of labor relations, prices and inventories to assure complete confidence as yet.

Thomas I. Parkinson, president of the Equitable Life Assurance Society of the U.S., is quoted as seeing no probability or even possibility of a real depression in the near future. That is, unless business men are so foolish as to raise fears of a recession, thus tending to destroy public confidence in themelves, labor relations and the Government.

Regardless of a general downtrend during recent months in totals of accumulated savings, the National Association of Mutual Savings Banks reports that they now have 17 1/2 million depositors, about a million more than on V. J. Day. Better yet, total savings of this kind now stand at $17 billion, the highest point in history.

Outlook for the next six months, at least, is considered highly satisfactory by J. Spencer Love, president of Burlington Mills Corporation. Removal of Government restrictions, along with high prices for competitive fibers, has proven constructive, he states. As yet it is impossible to foretell when supply and demand will reach a balance.

Under modern conditions a lot of capital as well as courage is needed to start a new and large scale enterprise. Kaiser-Frazer Corporation during its first ten months chalked up a net loss of $14.2 million as it was able to produce only 12,000 cars during this period. But between this concern and Graham-Paige orders for more than 1 million cars are reported on the books. And under current tax laws any 1946 deficit can be applied against 1947 earnings. This concern has just upped the price of its cars for the second time.

Despite all its 1946 troubles, General Motors Corporation turned out what most manufacturers would consider a sizable total of products. 827,829 passenger cars and 306,436 trucks rolled off from its assembly floors. To match 1941 records, however, GM must make about 1 million more passenger cars and 130,000 more trucks in 1947. Granted no labor fights and plenty of materials, the company could well make the grade and probably then some.

World output of natural rubber is expected to soon reach about 1,200,000 tons, according to P. W. Litchfield, Chairman of Goodyear Tire & Rubber Co. This would in the natural order of things bring about a lower price for both crude rubber and the synthetic competitor later in 1947, in his opinion, for output of both kinds would be about equal and exceed demand together.

A. E. Staley Manufacturing Company has landed a big order for soy bean flour from the British Ministry of Foods. 2.9 million pounds are involved, and with characteristic American efficiency the shipment is already on the high seas. The British

will use this special flour to mix with others in order to enrich bakery and macaroni products.

The American rug and carpet industry anticipates the production of the largest volume of soft floor coverings in its long history during 1947, says James De Camp Wise, president of Bigelow-Sanford Carpet Co. Items of this kind in hotels, offices and homes have become sadly worn out during the past five years, aside from the increasing demand from new home owners.

Expansion of pipelines promises to keep the pipe manufacturers exceedingly busy for some time to come. For example, Consolidated Steel Corporation of Los Angeles has just been awarded a $2.5 million contract for 100 miles of 26 inch pipe by El Paso Natural Gas Co. This in addition to a previous order for 214 miles more of pipe from the same source. And by the time the buyer gets through it will require pipe for another 900 miles to complete its present program. Who will get this business is not known yet.

By the way, the much discussed Big Inch and Little Inch Pipelines, recently leased from the Government by Tennessee Gas & Transmission Co., are delivering more than 100 million cubic feet of gas daily now, a big aid to customers as remote as in seven big Mid West States. Very shortly output will be boosted by 50%, the limit without compression. With the latter aid as much as 400 million cubic feet daily could be delivered.

Under the new provisions of the New York State insurance law, an interesting outlet for insurance company funds has been opened up, through direct ownership of income producing commercial real estate. This will prove a boon to the insurance companies, now hard pressed to find safe investments yielding 3% or more.

Among the first to take advantage of the opportunity, the New York Life Insurance Co. has agreed to take title to some $10 million plants under construction by or to be built for the Continental Can Co., and to lease them to this concern for a term of years. By this process, industry can be relieved of many new capital problems while the insurance companies also benefit decidedly.

Within a year from now the Chicago, Indianapolis & Louisville Railway Co. expects to have none but Diesel motored engines on its tracks. Extensive tests have indicated that by adoption of such a policy the Monon will stand to save 48% on fuel costs and 60% in locomotive repairs, it is claimed. The company has just accepted delivery of six Diesels built for it by a leading manufacturer.

Orders for stainless steel trailer trucks continue to pour in upon Fruehauf Trailer Company, according to reports. 810 of these vehicles have been contracted for by four large trucking concerns recently, bolstering still higher the already big backlog of orders on the books of this dynamic concern.

R. H. Hargrove, president of the American Gas Association, says that customers of the gas utilities reached a record high of 20.8 million in 1946, 2.4% more than in 1945. Total industry revenues rose 4% above the level of the previous year to more than $1.2 billion. Nearly 9.4 million consumers bought natural gas against 8.9 million buyers of the manufactured variety. And in the rural districts 3 million users of liquefied petroleum gas remote from pipelines bought their requirements in containers.

To raise tin production in the Dutch East Indies to prewar levels, the Dutch are building six superdredges and have bought two more from Bucyrus-Erie Co. in this country. These giant dredges cost about $2 million each.

Schenley Distillers

(*Continued from page* 435)

inadequate. Sales volume has been enlarged in ordinary channels, and this suggests that a better competitive position can be maintained.

Since dividends were inaugurated in 1941, a fairly liberal rate has been maintained. Payments have continued at the $2 annual rate after each successive split, so that the current distribution is equivalent almost to $6 annually on the stock as it stood in 1944. Although net income may turn downward, it could decline substantially before imperiling the $2 rate.

Financial position remains comfortable despite need for enlarging bank accommodations to finance enlarged inventories. Current assets after deducting all liabilities and contingency reserve amounted to $81.6 million, or $22.65 a share, as of August 31. Book value of the common stock stood at $35.88 a share, compared with $24.18 a share a year earlier, according to the latest annual report.

Profit Potentials in Meat Packing Shares

(*Continued from page* 428)

packing shares cannot be considered in the investment class, they appear to have good speculative prospects for the coming year based on a continuance of current prosperity.

Around the world

(*Continued from page* 425)

ment with a sigh of relief; the possibility of repudiation was removed.

The end of the war brought to Ireland, as to other neutrals, the end of "easy pickings." With enough shipping at their disposal, the British are no longer as dependent upon the food from Ireland as they were during the war. They are no longer inclined to pay prices higher than in world markets. The prospects are for considerably smaller exports, unless Irish industry and agriculture can successfully compete in world markets. This can be accomplished only by the lowering of relatively high production costs, particularly in Irish agriculture which has been noted for its backwardness and inefficiency. Not only will cultivating methods have to be improved, but the leached soil needs large quantities of fertilizer, especially of phosphates, if its fertility is to be restored.

The deValera Government has grand plans for the industrialization of the country and for the modernization of agriculture which is to include extensive rural electrification. The sterling funds accumulated during the war are to be used for just such a purpose. Ireland has never had a better chance to put an end to the economic stagnation that plagued it during the inter-war period and

(*Continued on page* 454)

AT YOUR SERVICE

This year Katy's sleek new streamliners will be roaring across the nation... modern Diesels will be moving Katy freight at passenger train speeds... hundreds of new cars, rolling over vastly improved roadbeds will offer extra service to and from the great Southwest. In 1947 Katy's determined program to afford the finest, the fastest... and the safest... transportation service to and from the great Southwest will be moving forward full speed. So when you ship or travel, depend on Katy, a dependable railroad devoted exclusively to serving your transportation needs in the strategic Southwestern corridor.

SERVES THE SOUTHWEST

Happening in Washington

(*Continued from page* 412)

They—or at least a safe number of them — know Byrnes, know Marshall, and know current world problems.

Take Byrnes: he was a court stenographer turned small-town lawyer by the easy processes that were the vogue in the day when he was admitted to the bar. He entered promptly and vigorously into politics, soon landed in Congress. And he made a career of Congress until he reached the Supreme Court bench through joint action of personally friendly Senators and the President. He was a beneficiary of "government by crony" for a time; held important positions in the war effort. He resigned in pique when he failed to win the Vice Presidential nomination which, fate had decreed, was to lead to the Presidency. And he returned to government service in the second highest office of the land—which, like the highest in present conditions — was not directly elective.

Byrnes had not even served on the Foreign Relations Committee of the Senate! He was a career, un-travelled Senator! It was fortunate for the United States that under his Secretaryship the interests of another of the three major powers ("Big Four" is a misnomer) ran parallel to those of this country. The United States benefitted by the historically successful representations of the United Kingdom in diplomatic parleys.

Byrnes was honest, sincere and hard-working. He just was not equipped.

Take Marshall: The new Secretary is equipped by training and personality for his job. The lanes of military and diplomatic preparation run closely parallel. To Marshall military planning has always been global; under his direction the defense of this nation was plotted down to the texture of the soil on the islands of the Pacific, to solve the problems of airport construction, should the need arise. And it did arise.

Congress found in Marshall a man who couldn't be "pushed around." Even the tough committee headed by then-Senator Harry S. Truman came to respect his judgment, vouch for his integrity. Winston Churchill had his lesson from Marshall when the general vetoed the plan for invasion of Europe by the "soft" under belly and made the Normandy entry campaign prevail. Churchill doesn't particularly like Marshall, but Churchill's influence is almost nil in the present British government and the new Secretary is more than acceptable to the labor government whose leaders, like Marshall, rejected Winston. As a matter of fact, the British are glad to have in the United States state secretaryship a "tough dealer" across the table from the Soviet diplomats who have been allowed to indulge "fresh talk" with Jimmy Byrnes. The Kremlin well knows the former Chief of Staff as an unruffled, natural diplomat who speaks with authority and conviction and who is utterly unafraid.

The British have lost much of their earlier attitude of unconcern over the "Red threat." They're showing a disposition to placate Stalin, Gromyko, et al. They welcome some one to carry the diplomatic ball; realize they have found such a person in Marshall.

The retired general, importantly, gets along with Congress. He symbolizes the American foreign policy as it has been expressed, not as it always has been applied.

His lone diplomatic mission — under that name — was to China. He could not compromise the differences. Who could? But in long-range analysis it is, perhaps, not as important that he succeeded or failed in China, as it is that his handlng of that problem establishes his diplomatic ntegrity. It would have been vastly smpler for him to decide one side was right, one side was wrong, and to concoct the evidence to support his position. But he elected to deliver, straight from the shoulder, a clear indictment of both factions, playing no favorites, rejecting the blandishments.

One more point: psychological approaches established their worth in wartime. They are still invaluable. All over the world today, and especially in the South American countries, militarism is dominant. Nations are looking to soldiers for leadership, seem obsessed with the notion that none but a military "strong man" can handle their ships of state. It is more important than appears at first examination that this country has picked for its diplomatic chief the man who plotted the military campaign against its enemies, carried it through to a successful completion.

LABOR LEGISLATION AHEAD—It would be difficult, but not impossible, for the Republican majority in Congress to muff the ball to the extent that an apparent 1948 national election victory could be lost.

A cycle has been completed. The Democrats are in rout, much as the Republicans were on the run in 1932 as things shaped up for the longest Democratic White House tenure in history. There is a certain similarity between the two periods: the Republicans had overdone the job of protecting business, industry and the employer; the Democrats have overdone the job of boosting organized labor to the top of the heap.

As a matter of fact neither party did a real favor to its intended beneficiary. Revolt was invited. And it came.

The Republicans have two years within which to carry out their promises to re-make the labor-management setup. That may be too short a time; it will be too short if the GOP doesn't do some planning, abandon the haphazard approach which has been all too evident to date.

Laws are not enacted over night. Neither is their worthwhileness established in a matter of days. The slow moving machinery of legislation cannot bring any fundamental reforms into existence for several months

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to lift itself from the poverty that has been its lot for such a long time.

Italian Premier Arrives to Discuss the Saving of the Lira

The visit of the Italian Premier de Gasperi may yet prove to be the turning point in Italy's postwar history. If the aid of the United States and Great Britain is secured for the rebuilding of Italy (Italian Foreign Minister Nenni is about to depart for London on a similar mission), there is a fair chance that the economic deterioration may be arrested, confidence in the lira restored, and the moderate, democratic elements helped. The alternative is a run-way inflation followed by desperation that may easily bring about a Communist controlled Government. In such a case, Italy would be lost to the western nations and democracy.

The lira officially was devalued just about one year ago to the level of 225 lira per dollar, or to about one-tenth of its pre-war value. For a time it seemed that the economic situation on the peninsula was on the mend. The textile industry made a striking recovery and Italian exporters were taking advantage of the elimination of German competition on the Continent and in Latin America. American and Swiss funds were flowing into the country, and the black market for the lira steadied between 300 and 350 lira per dollar.

However, late in the Summer the country realized that the peace terms are to be harsh and that they will be a drag on rehabilitation. Meanwhile, still other developments have slowed down the promising reconstruction. No loan from the United States was forthcoming—Italy asked in February 1946 for $900 million. The maritime and coal strikes here interfered with the shipments of food and coal. The lack of coal in particular made worse the already bad distribution of food and raw materials. Food rations had to be reduced. Many factories closed. With the increase in unemployment, general discontent spread and rioting is being reported from all parts of Italy. Black markets got a new lease on

life as people began to withdraw money from banks. Early in December the dollar was reported to have sold as high as 850 lire. The deterioration in the economic situation was also reflected in the November municipal elections which strengthened the extremists of the right and of the left at the expense of moderate center parties.

This is how the situation stands today. Although UNRRA relief will gradually cease, Italy will probaby get some direct food relief, but when the new Congress will appropriate the money and how much, remains a big question. The Export-Import Bank will apparently come across with only about $100 million—the rest will have to come from the International Bank and the Monetary Fund, but that, too, is likely to take time. Italy's deficit in international accounts in 1947 is estimated at about $800 million and the four-year reconstruction program may require as much as $4 billion of foreign funds. Who will lend Italy that much money?

The conversations in Washington are likely to include among other things a discussion of a more realistic exchange rate for the lira. A rate of 400 lire for the dollar has been mentioned, but unless Italy is helped quickly and effectively, even such a rate may prove to be but a stop-over on the road to a complete collapse of currency.

Things to Think About

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case) and have perverted the basic principal involved therein to apply to all manner of cases. It's now reaching the fantastic limits of workers demanding extra pay for "wash-up" time at the end of the day and so on. Even the labor leaders themselves must be well aware of the consequences of their "portal" claims, which suggests that it is being used as a leverage for bargaining purposes to gain other ends.

Best opinion to date is that real relief will be forthcoming in form of either court decision or Congressional action. Moreover, some states have limiting statutes which cover situations like these.

Opportunities for Income and Price Appreciation

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cent prices presents an interesting investment potential to yield 4.7%. At 107 this stock is about 2 points above its 1946 low price of 105 but some six points lower than the relative high of 113½. Call price of the issue is 105. Dividends on the issue have been paid without interruption since 1936. Net earnings of Goodyear have trended steadily upwards for a good many years past, that portion available for the preferred equalling more than $24 per share for the past several years. While full year figures for 1946

are not yet avaliable, net reported for the first six months alone was the equivalent of $24.82 on this issue under discussion. Ranking senior to the preferred are $36 million of bonds but their interest rate is low and their due date as distant as 1964. In relation to normal earnings, accordingly, prior charges are a minor burden.

BETHLEHEM STEEL CORP. filed a registration statement with the Securities and Exchange Commission covering $50 million of bonds to provide funds for increasing steel plant facilities.

HIRAM WALKER - GOODERHAM & WORTS LTD., and its American subsidiary Hiram Walker & Sons filed a registration statement with the Securities and Exchange Commission covering $30 million of twenty-year debentures due 1966. Public offering price and interest rate will be filed later by amendment. Smith, Barney & Co. and Kidder, Peabody & Co. will be the principal underwriters. Part of the net proceeds will be used to repay bank loans of $10,-067,500, with the balance to be used for corporate purposes.

ATLANTIC REFINING CO. filed a registration statement with the Securities and Exchange commission covering $29,600,000 of new cumulative preference stock, par $100, which will be offered to holders of its common stock in the ration of one new share for each nine shares of common stock held. Offering price and dividend rate will be filed later by amendment. Unsubscribed shares will be purchased by an underwriting group headed by Smith, Barney & Co. for public offering. The 296,000 preference shares to be offered is part of new authorization of 650,900 shares, and will be subordinated to the present outstanding preferred stock. Of the proceeds, $15,540,000 will be used to redeem the $14,800,000 of 4 per cent cumulative convertible preferred stock, Series A at 105 a share. The balance will be added to general funds. In addition to the series A preferred stock to be called, there are outstanding 102,000 shares of $3.60 Series B cumulative preferred stock.

TOLEDO EDISON CO. filed with the Securities and Exchange Commission, a plan to refund all outstanding debt and preferred stock. Plan calls for sale at competetive bidding of $32 million of new first mortgage bonds and $16 million of preferred stock, and will provide for ten-year serial bank loan of $4,500,000. Proceeds will be used for redemption of $33 million of 3¼ per cent and 3½ per cent first mortgage bonds, $4,893,750 of 3½ per cent debentures and $16,123,100 of 5, 6, and 7 per cent preferred stocks. Cities Service Co., owner of 98 per cent of the common stock, will make a capital contribution to Toledo Edison of $5

million and will cancel its $13,300 par value holding of the latter's preferred stock.

Foreign Bonds

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been worked out for resuming service. Costa Rica has been in default since 1941 and El Salvador for a longer period though it has now made an adjustment offer.

There are doubtless many interesting speculative opportunities in the foreign bond field but while political economic and monetary factors in the respective countries furnish a background for appraising the defaulted bonds, political factors and developments play such an important role that forecasting remains difficult and hazardous.

Industrial Balance Sheet

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will be on the heavier goods fields, principally in the automotive, electrical equipment, steel, machinery and similar industries. (For further comment on this subject, the reader is referred to the article "*Which Industries Offer Best Prospects For* 1947" in this issue.)

Conversely, some slackening off is expected in the lighter goods industries and consumer lines, mainly because the much-talked-of "business pipelines" are getting filled with these products, and, also, because the high rate of output in 1946 piled up huge inventories of nearly-completed goods in many of these fields, which need only some minor parts or additions for final completion. Thus, acute shortages on certain consumer goods can suddenly turn to abundance—or even surplus—as these huge inventories of semi-finished goods are completed and are suddenly loosed on the retail markets.

This increasing flow of goods to consumers has already resulted in so-called "buyers' markets" in a number of lines, resulting in price markdowns, some of which have reached sizable proportions.

But while much apprehension has been voiced about "buyers' markets" it must be remembered that this is the normal rather than exceptional state of affairs, as "sellers' markets" in this country prevail only during unusual times, such as war or other emergencies which impede production. Our whole economy rests, in a sense, upon "buyers' markets," with competition for the consumer's dollar the chief determinant of prices. A return to such a condition is therefore a healthy augury, and will do much to stabilize our economy. For one thing, it will materially ease the pinch on consumers' pocketbooks, and will make wage demands less urgent than heretofore.

As the accompanying "balance sheet" indicates, some slackening in production is ahead for 1947, and with it, a moderate decline in employment and our gross national product. Minor decreases are also indicated for farm income and national income, but even allowing for such contingencies, the resultant figures would still be well above pre-war levels, and well ahead of the banner year of 1929.

Though the year ahead will witness far-reaching readjustments in prices and consumer markets, it promises to be a good year on balance, particularly in view of the rising trend expected for heavy industry. By far the most important factor is the good backlog of consumer buying power which is the best bulwark against serious business recession. Although individual savings declined noticeably during 1946, owing to work stoppages and higher living costs, both liquid assets and money in circulation are about three times their respective pre-war averages. This basic buying power, augmented by the continuing expansion of consumer credit, should sustain a substantial business boom once the readjustments of 1947 are out of the way.

Best Prospects for 1947 Which Industries Offer

(*Continued from page* 411)

leaf tobacco prices points to gradually lower costs. Maintenance of relatively liberal earnings seems probable.

Utilities—Demand for electric power recovered from the letdown of late 1945 when armament production stopped. The industry added nearly 2 million new electric customers in 1946 and was making preparations to serve an additional 600,000 this year. Additional generating facilities are in prospect for 1947. The natural gas industry recorded even greater progress and finds demand for household heating requirements steadily mounting. Higher earnings for 1946 reflected relief from excess profits taxes. Hence, gains in the coming twelve months may be moderate. Rising costs present a threat to margins, but also tend to restrain public service commissions from reducing rates.

Merchandising—Retailers expect narrower profit margins this year as consumer resistance to poor quality merchandise increases. Larger quantities of "hard goods" are coming to market, however, and this factor should retard the decline in sales volume. The record business of between $90 and $100 billion for 1946 of which department stores contributed about 10% may not be duplicated for some time. Higher wage scales, increased delivery costs, larger markdowns on off-season sales are among the factors that threaten to shade margins. Although the recession may be gradual, there seems to be general agreement that the peak in retail store earnings has passed.

Textiles — Prospects point to curtailment in textile output, but the retrenchment seems likely to be mixed. Woolen goods have been the first to feel the restraining influence, especially in women's wearing apparel. Orders for cotton goods have begun to taper off, and even rayon products are less urgently sought. Hosiery is plentiful in all grades. Carpets continue in good demand and, if residential building makes progress, this division of the industry should have another good year. Worsteds are showing resistance to the downtrend in woolen goods. With wage costs higher and profit margins shrinking, the goods manufacturers seem headed for reduced earnings this year.

Happening In Washington

(*Continued from page* 452)

and an appraisal of their workability will take many months more. Labor, management, and the general public aren't going to be satisfied with "samplings" of effects. The Republicans must establish their success by affirmative evidence, or suffer punishment at the hands of the electors.

The dominant party is in an especially good position to work on labor reforms if it has the will to do so. There will be little defense of the over-reaching unions on the part of the Democrats; in

fact much of the support will come from that side of the aisle. Demand for curtailment of unions springs largely from the Democratic solid south; and in the northern states the Democrats skinned through, if at all, with labor votes staying away from the polls in droves. No one is in political debt to the unions. If the Republicans legislate with a sensible eye on the ballot box, they will pass laws to outlaw certain types of union leaders, certain types of union practices.

Senator H. R. Smith of New Jersey, co-author of the first omnibus labor bill, a re-write of the Case Bill, phrased it thus: "This measure was drafted with a view to helping organized labor by emancipating workmen." If one thinks the rank and file of labor doesn't like the bill he should examine the crate of letters of approval in Smith's office from union members, and their wives. There, from the heart of union activity, comes an aspiration for reform.

Answers to Inquiries

(*Continued from page* 440)

of Central America on December 31, 1945 totaled 794.70 miles. This included 509.65 miles of main line in Guatemala and 285.05 miles of main line in Salvador.

Principal freight hauled is coffee and bananas. United Fruit Co. owns 51.2% of the common stock. The reason preferred dividends were not paid fully during the past five years, except in 1946, although earnings were several times dividend requirements, was due to a policy of systematic debt reduction which has lowered fixed charges to a point where payments against preferred arrears now may be increased. The preferred stock earned $20.76 a share in 1945 and $16.86 for the nine months to Sept. 30, 1946.

The common stock earned $3.15 a share in 1945 and $2.62 a share for the nine months to Sept. 30, 1946. Dividend arrears on the preferred amounted to $34.75 as of Aug. 15, 1946.

The common stock has a good deal of leverage because of the senior securities outstanding.

The increase in air freight is not likely to affect earnings of this road appreciably in the near future as shipments of coffee and bananas by air cannot compete with lower hauling cost via railroad.

There was no news to account for the $1\frac{1}{2}$ point drop in market price on Nov. 30. In these days of thin markets, most any stock can drop $1\frac{1}{2}$ points or more.


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